

The Prospectus
Required Reading



The Prospectus — Required Reading

PROSPECTUS

One of the best ways to protect investors is to ensure that they have access to accurate and up-to-date information about any corporation or mutual fund in which they might choose to invest. That is one of the underlying principles of Canadian securities law and the reason that securities issuers — like corporations and mutual funds — are required to prepare prospectuses, financial statements and other public disclosure materials.

A prospectus is an invaluable source of information. Its purpose is to give investors and their financial advisers information about a corporation or mutual fund, including information on products, management, financial and strategic planning and risk, in order to assist them in making sound investment decisions. A prospectus is of little value, however, if it is not read.

What is a prospectus?

A prospectus is a detailed disclosure document that normally must be prepared whenever a corporation or mutual fund plans to issue securities to the public. It must, under the *Securities Act*, provide full, true and plain disclosure of all material facts relating to the securities being issued. It must also be accepted for filing by the securities regulators and delivered to every person who buys the securities.



A typical prospectus includes, among other things:

- the history of the issuer and a description of its operations;
- audited financial statements for the previous three years;
- a description of the issuer's business and investment plans;
- a description of the intended use of proceeds from the securities offering;
- a summary of the major risk factors affecting the issuer;
- information about the issuer's management and its principal shareholders (those who own more than 10%);
- a description of the legal rights of investors, under the *Securities Act*, to withdraw from a purchase, or to sue for rescission or damages if the prospectus contains a misrepresentation.

Why should I read the prospectus?

Some people seem to think that prospectuses are prepared for securities regulators rather than investors. That is simply not the case. While they are not exciting leisure-time reading for many people, the whole purpose of the prospectus is to inform and to protect investors. Under the *Securities Act*, prospectuses are required to contain the facts. It is the facts, not promotional hype or a sales pitch, that should be the basis for investment decisions.

A prospectus allows investors to protect themselves by giving them detailed information about the issuer and about the securities being sold. In the prospectus, investors can find answers to many of the questions they would naturally ask before making an investment. Some questions might include:

- Is the issuer well established or is it a new venture with little or no history?
- What business is it in? Who are its competitors?
- What are the issuer's business plans and how does it intend to spend the proceeds of this offering?
- Has the issuer been profitable in the past? Has its financial performance been improving or declining in recent years?
- What assets does it hold?
- Does it have substantial debt?
- What other securities have already been issued?

REASONS



- Who are the directors and officers? Do they have established track records of success? Do they have qualifications relevant to the issuer's business? How will they be compensated? Have they had any regulatory problems in the past?
- What are the major risk factors that could affect the issuer's performance in the future?
- Is there a market for the issuer's securities?

By reviewing the prospectus, investors will be better able to determine whether the investment has merit and whether the levels of risk and potential return fit their particular investment needs and objectives.

Issuers generally take great care to ensure the statements made in their prospectus are accurate, as it is illegal to file a false or misleading prospectus. If material misrepresentations are found in a prospectus, each person who bought securities under the prospectus has the right to sue for rescission (the return of their investment) or damages.

The *Securities Act* also protects investors by giving them the right to withdraw from any purchase under a prospectus for two days after they receive the prospectus.

Remember — the fact that a prospectus has been filed and receipted is neither a regulatory seal of approval nor an assurance that the securities are a worthy investment. In fact, the front page of every prospectus must state that: "No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereby..."

Where can I get a copy of the prospectus?

If you invest in securities being sold under a prospectus, the issuer, its agent or its underwriter will send a copy of the prospectus to you. Copies can also be obtained by calling the issuer or the dealers who are acting as the issuer's agents in the offering. The prospectus will also be available for viewing at any stock exchange on which the securities are listed and at the offices of the provincial or territorial securities regulators, such as the Commission des valeurs mobilières du Québec, which issued receipts for the prospectus. Most prospectuses filed in Canada since mid-1997 are also available through the Internet at www.sedar.com. They may also be available on the issuer's Internet site.



PROSPECTUS

How does the prospectus process work?

When an issuer decides to offer securities to the public, it first prepares a preliminary prospectus and files that document with the appropriate securities regulators for review. Once the preliminary prospectus has been properly filed, the issuer can begin to solicit expressions of interest from potential investors, provided that it gives each potential investor a copy of the preliminary prospectus and complies with other legal requirements. When regulatory review of the document is complete and any comments have been addressed, the issuer prepares and files a final version of the prospectus and the securities regulators issue a receipt for it. Once the prospectus receipt has been issued, the issuer can begin to distribute the securities. A copy of the final prospectus must be sent to every purchaser.

Securities distributed under a prospectus can be freely traded among investors, typically through a stock exchange or another secondary market. Securities that are issued without a prospectus (under certain statutory exemptions from the prospectus requirement) can generally not be sold to the public and in most cases are subject to resale restrictions.

After the prospectus, what are the responsibilities of reporting issuers?

An issuer that has obtained a receipt for a prospectus becomes a reporting issuer in that jurisdiction. This requires it to publish interim financial statements and give prompt notice to the public of any material changes in its affairs. These financial statements and material change reports are available to the public at most of the securities regulators, at any stock exchanges on which the securities are listed, and on the Internet at www.sedar.com. Insiders of reporting issuers must also file regular reports disclosing their trading activity in the issuer's securities. Insider reports are available for public viewing at the offices of the securities regulators.

Remember — the purpose of a prospectus is to protect you, the investor, and to give you the information you need to make sound investment decisions.



Glossary

Insider: An insider is a person who owns more than 10% of the voting shares of an issuer. All issuers, and directors and senior officers of a corporation are deemed to be insiders.

Mutual fund: A fund representing a pool of money from investors that is managed on their behalf by professional money managers. In return for the money they invest, the investors receive units or shares representing their pro-rata share of the fund's assets.

Secondary market: The market on which existing securities are traded among investors.

Securities: Investment products such as stocks, bonds, mutual fund units, etc.

Underwriter: An investment dealer that purchases securities directly from the issuer for resale to other investment dealers or the public, or for resale to the public in the issuer's name.



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QUÉBEC

Commission des valeurs mobilières du Québec

800, square Victoria, 22^e étage
C.P. 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
Telephone: (514) 940-2150
1-800-361-5072
(elsewhere in Quebec)
Fax: (514) 873-3090
Web Site: www.cvmq.com
E-mail: courrier@cvmq.com

ALBERTA

Alberta Securities Commission

300-5th Avenue SW, Suite 410
Calgary, AB T2P 3C4
Telephone: (403) 297-6454
Fax: (403) 297-6156

20th Floor, 10015 Jasper Avenue
Edmonton, AB T5J 3Z5
Telephone: (403) 427-5201
Fax: (403) 427-0777

BRITISH COLUMBIA

British Columbia Securities Commission

865 Hornby Street, Suite 200
Vancouver, BC V6Z 2H4
Telephone: (604) 899-6500
Fax: (604) 899-6506
1-800-373-6393
(elsewhere in B.C.)
Web Site: www.bcsc.bc.ca

MANITOBA

Manitoba Securities Commission

405 Broadway Avenue, Suite 1130
Winnipeg, MB R3C 3L6
Telephone: (204) 945-2548
Fax: (204) 945-0330
Web Site: securities@cca.gov.mb.ca

NEW BRUNSWICK

Office of the Administrator of Securities

133 William Street, Suite 606
P.O. Box 5001
Saint-John, NB E2L 4Y9
Telephone: (506) 658-3060
Fax: (506) 658-3059

NEWFOUNDLAND

Securities Division

Department of Government Services & Lands

Government of Newfoundland and Labrador

2nd Floor, West Block, Confederation Building
P.O. Box 8700
St. John's, NF A1B 4J6
Telephone: (709) 729-4189
Fax: (709) 729-6187
Web Site: www.gov.nf.ca/

NORTHWEST TERRITORIES

Registrar of Securities Department of Justice Government of Northwest Territories

P.O. Box 1320
Yellowknife, NT X1A 2L9
Telephone: (867) 873-7490
Fax: (867) 873-0243

NOVA SCOTIA

Nova Scotia Securities Commission

Joseph Howe Building
1690 Hollis Street, 2nd Floor
P.O. Box 458
Halifax, NS B3J 2P8
Telephone: (902) 424-7768
Fax: (902) 424-4625
Web Site: www.gov.ns.ca

NUNAVUT

Nunavut Legal Registries Government of Nunavut

Bag 9500
Yellowknife, NT X1A 2R3
Telephone: (867) 920-6354
Fax: (867) 873-0586

ONTARIO

Ontario Securities Commission

20 Queen Street West, Suite 800
P.O. Box 55
Toronto, ON M5H 3S8
Information: (416) 593-8314
Publications: (416) 593-8117
Fax: (416) 593-8122
Web Site: www.osc.gov.on.ca

PRINCE EDWARD ISLAND

Department of Community Affairs & Attorney General

95 Rochford Street, 4 Shaw North
P.O. Box 2000
Charlottetown, PE C1A 7N8
Telephone: (902) 368-4551
Fax: (902) 368-5283
Web Site: www.gov.pe.ca/

SASKATCHEWAN

Saskatchewan Securities Commission

1920 Broad Street, Suite 800
Regina, SK S4P 3V7
Telephone: (306) 787-5645
Fax: (306) 787-5899

YUKON

Registrar of Securities Government of Yukon

2134 2nd Avenue
P.O. Box 2703
Whitehorse, YK Y1A 2C6
Telephone: (867) 667-5005
Fax: (867) 393-6251



Commission des valeurs mobilières du Québec

800, square Victoria, 22^e étage, C.P. 246, Tour de la Bourse, Montréal, Québec H4Z 1G3
Telephone: (514) 940-2150 or 1-800-361-5072 Fax: (514) 873-3090
Web Site: www.cvmq.com