



MERGERS AND ACQUISITIONS IN CANADA

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INTRODUCTION

Canada has an active and vibrant mergers and acquisitions market. The legal processes and procedures reflect this, by establishing relatively clear and straightforward rules by which M&A transactions can be completed. At the same time, the law continues to develop as it relates to directors' duties and responsibilities, so that hostile acquisitions and responses to shareholder activism can be the subject of creative strategies and structures, some of which may lead to litigation.

The following is intended to provide a high-level summary of the principal legal considerations pertaining to public company M&A in Canada. The question and answer format is designed to provide answers to some of the most commonly asked questions by potential buyers who are contemplating an M&A transaction. If you have questions that are not answered here, please contact us and we would be glad to answer you in person.

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PROCESS

1. How does a buyer acquire control of a public company?

The two most common methods of acquiring control of a public company are:

- **Take-over bid.** A formal offer is made to all shareholders, which is open for acceptance (or tenders of shares) by the target's shareholders. A take-over bid can be friendly or hostile.
- **Plan of arrangement.** A statutory plan of arrangement, which is usually implemented by agreement between the bidder and the target. A plan of arrangement, however, may provide for almost any type of transaction or combination of transactions, including:
 - ◇ share purchases;
 - ◇ amalgamations;
 - ◇ wind-ups;
 - ◇ redemptions of shares;
 - ◇ transfers of assets; and/or
 - ◇ issues of new shares.

It is this flexibility, and the ability to accommodate various transaction objectives and tax-planning requirements, which makes plans of arrangement so widely used. A plan of arrangement requires both shareholder and court approval. As these transactions require the co-operation of the target, they are almost always negotiated.

A statutory amalgamation under corporate law allows two Canadian companies to merge directly into one combined company. While not commonly used, an amalgamation may be the more desirable method in a straightforward consensual merger, since it avoids the necessity of court proceedings.

Appendix A contains a table showing the principal differences between a take-over bid and a plan of arrangement.

HOSTILE BIDS

2. How common are hostile bids?

Hostile bids are relatively common, although are the exception rather than the rule. The reasons for this include:

- The mixed success rate for bidders initiating hostile bids, with a relatively high percentage of first movers being outbid by subsequent bidders.
- The large number of Canadian issuers with significant security holders in a position to block a hostile bid for all securities.

REGULATION AND REGULATORY BODIES

3. What regulatory bodies have jurisdiction over M&A?

Securities regulation in Canada, including the take-over bid rules, is conducted primarily by the provinces, since there is no federal or national securities commission. However, the federal government regulates matters such as competition and foreign ownership (see Questions 25 and 26). Corporations may be incorporated federally or in a province, and the relevant corporate law will affect the process and substantive requirements for mergers, shareholder meetings and back-end squeeze-outs.

Provincial securities regulators have implemented regulatory initiatives to harmonise and consolidate the rules governing take-over bids, so there is effectively one set of procedural rules across Canada.

Formal take-over bids, and the bidder's offer documents (whether the offer price is payable in cash, securities or a mixture of both) are not required to be reviewed, receipted or cleared by securities regulators before the take-over bid can be made or delivered to, or accepted by, the target's shareholders. Securities regulators, however, can selectively review take-over bids for compliance with applicable rules. Most often they do so when asked by competing bidders and/or targets alleging deficiencies in a competitor's offer.

Similarly, plans of arrangement (or other merger documents) are not required to be reviewed or cleared by securities regulators before being delivered to the target's shareholders, but plans of arrangement require:

- Preliminary court approval, which deals with the transaction's procedural aspects, such as calling the shareholder meeting and sending proxy materials.
- Final court approval, which is a hearing on the fairness and reasonableness of the transaction after it has been approved by shareholders.

As with take-over bids, securities regulators can (and selectively do) review plan of arrangement materials, particularly in relation to compliance with applicable disclosure laws. Government officials responsible for administration of corporation statutes only rarely become involved in plans of arrangement.

Canada's stock exchanges, the Toronto Stock Exchange and the TSX Venture Exchange, both of which are self-regulating organisations, can also impose requirements on take-over bids and plans of arrangement. The stock exchanges will often review proxy circulars sent in connection with plans of arrangement before delivery to the target's shareholders.

DUE DILIGENCE

4. What due diligence materials are generally available to a bidder?

Recommended bid

In recommended transactions, the target usually responds to the bidder's due diligence request by providing access to a data room containing confidential information. The data room can be physical or, more commonly, on a hosted website. The extent of information provided is usually subject to negotiation and can vary depending on how competitive bidding is for the target. Generally, access is given under the terms of a confidentiality agreement that often contains standstill provisions prohibiting the bidder from subsequently launching a hostile bid.

A couple of recent cases have shown that, even in the absence of explicit standstill provisions, a bidder who has signed a confidentiality agreement may be restrained from making a hostile bid. For example, in the 2009 Ontario case of *Certicom v. Research in Motion*, RIM (now BlackBerry) was prevented from making a hostile bid for Certicom because RIM had signed a confidentiality agreement which restricted the use of information disclosed to it by Certicom. The key to the decision was that a hostile bid was outside the scope of the permitted use of the confidential information. A similar result occurred in the 2012 Delaware case of *Martin Marietta v. Vulcan Materials*.

Hostile bid

A hostile bidder generally only has access to information that is publicly available. Access to non-public information is usually precluded as the target is unlikely to co-operate with the bidder, or is likely to impose terms of access which are unacceptable to the bidder such as requiring the bidder to agree to a standstill.

Public domain

Extensive current material information (including financial statements) concerning every public issuer is available through the SEDAR website maintained on behalf of provincial securities regulators (www.sedar.com), which includes:

- Annual information forms.
- Annual and quarterly financial statements, and management discussion and analysis.
- Press releases.
- Material change reports in respect of material changes in the issuer's affairs.
- Material contracts.
- Business acquisition reports in respect of significant acquisitions.
- Technical reports on material mining and oil and gas projects.
- Take-over bid and issuer bid circulars.
- Proxy circulars.

Information regarding trades and holdings by insiders of public issuers is available at www.sedi.ca. The bidder may also obtain information by searching public records relating to:

- Corporate information.
- Patents and trademarks.
- Personal property security.
- Environmental matters.
- Real estate.
- Court records for pending litigation.

LOCK-UPS

5. Is it common to enter into agreements (“lock-ups”) with shareholders regarding their intentions in respect of the bid?

It is fairly common for bidders to obtain commitments from key shareholders to tender their shares to a take-over bid, or to vote their shares in favour of a plan of arrangement. The nature of, and parties to, such lock-up agreements must be publicly disclosed.

Lock-up agreements must be carefully drafted to avoid unintended consequences in relation to their validity, or the ability of the bidder to vote the locked-up shares in subsequent squeeze-out transactions. Serious negative consequences can also result if the shareholders entering into these types of agreements receive consideration of greater value than what other shareholders are offered since this would violate the fundamental principle of equal treatments for all shareholders.

There are different types of lock-up agreements. A “hard” lock-up requires the shareholder to tender to the particular bid even if a more attractive offer is made by a subsequent competing bidder. A “soft” lock-up, on the other hand, would allow the shareholder to tender to the competing bid under certain circumstances.

TOE-HOLDS

6. If the bidder decides to acquire a stake in the target before announcing the bid, what disclosure requirements, restrictions or timetables apply?

A bidder can generally acquire a voting or equity interest that is less than 10% of any class of voting or equity securities of a public issuer without any disclosure of its holdings (although this threshold is proposed to be reduced to 5% to match the rules in the U.S.). Once it acquires 10% or more of a class, the bidder must issue a press release and file an early warning report. At 10% it also becomes an “insider” and becomes required to both:

- File insider reports of all its purchases and sales of shares in the target.
- Issue press releases and file reports of incremental purchases totalling 2% of the outstanding shares.

Also, upon reaching a holding of 10% and becoming an insider, the bidder faces additional requirements in making a bid or proposing a merger transaction. This is because an insider is presumed to have an informational advantage over other shareholders.

The 10% early warning threshold drops to 5% once a take-over bid has been made for a target.

A bidder cannot offer to acquire 20% or more of any class of voting or equity securities unless it makes a formal take-over bid to all shareholders, or unless it meets the requirements for certain exempt take-over bids (see Question 16).

In calculating these thresholds, the shares owned and being sought by the bidder must be aggregated with the shares held by any person with whom it is acting jointly or in concert. The determination of whether a person or company is acting jointly or in concert is based on the facts of each situation.

The use of derivatives or swaps, depending on their terms, can trigger the above disclosure requirements. The rules contain provisions which address:

- Convertible and exchangeable securities.
- Indirect acquisitions of:
 - ◊ beneficial ownership;
 - ◊ control of voting or equity securities.

There are also pre-bid integration rules under which the price and percentage of shares acquired from any particular party in a private transaction during the 90 days before a formal take-over bid must constitute the minimum price and percentage of shares sought under the take-over bid. For example, if a bidder acquired in a private transaction all of a person's shares of the target at a specific price two months before making a bid, the take-over bid must include an offer to purchase at a price at least equal to the price paid in the private transaction and must be for all of the target's outstanding shares. This does not apply to normal course acquisitions through a stock exchange.

AGREEMENTS IN RECOMMENDED BIDS

7. What agreements are generally entered into?

A support agreement or merger agreement is common in transactions in which the target's board of directors recommends the transaction to shareholders. Although these agreements vary in scope depending on the nature of the transaction, they usually contain provisions relating to:

- The bidder's obligation to make the bid or the target's obligation to put the merger to a shareholder vote.
- The timing of public disclosure, governmental or regulatory filings and document deliveries.
- Parties' representations and warranties.
- Other covenants of the parties including no-shop or go-shop clauses, prohibitions against transactions or actions by the target outside the normal course of business, and other deal protection measures.
- Conditions to closing for each party.
- Break fees, expense reimbursements and termination rights.

8. What form does the recommendation take?

In the context of a formal take-over bid, the target's board is required to issue a directors' circular containing a recommendation to shareholders as to whether to accept the bid. If the directors are unable to make a recommendation, they must explain why in the circular.

In the context of a plan of arrangement, because the transaction is being put forward by the target to its shareholders for approval, it is usual for the proxy circular sent to shareholders to contain a recommendation by the board of directors to vote in favour of the transaction.

9. Is it common for the target, or the bidder, to agree to pay a break fee if the bid is not successful?

It is quite common for target companies to agree to pay a break fee in certain circumstances. The most common triggers for payment of a break fee include:

- The withdrawal of support of the target's board for the transaction.
- The emergence of a financially superior competing offer which the target's board decides to support in preference to the original bid.
- Breach of the support or arrangement agreement by the target, or failure to meet a condition within the target's control.
- The announcement of a competing bid before termination of the existing transaction which is subsequently completed within a certain period after termination.

It is less common for break fees to be payable by a target issuer if its shareholders do not approve the transaction.

Reverse break fees, payable by bidders, have become more common where there is a potential risk to the target of a failed transaction due to the fault of the buyer for failure, for example, to obtain financing in the context of a plan of arrangement.

There is no statutory or regulatory limit on the size of break fees, but courts and securities commissions, in contentious proceedings, sometimes make findings as to the reasonability and enforceability of break fee arrangements and shareholders may object if a break fee is viewed as too high or as discouraging competing offers. There are generally accepted ranges of commercially reasonable break fees that depend, in part, on the size of the transaction.

COMMITTED FUNDING

10. Can a bid or acquisition be conditional on financing?

Statutory take-over bid rules require the bidder to make adequate arrangements before the bid to ensure that funds required for the cash component of the bid are available to make full payment for all securities that the bidder has offered to acquire. These arrangements must be disclosed in the formal bid documentation.

The financing arrangements may be subject to conditions if, at the time the bid is commenced, the bidder believes the possibility is remote that, if the bid conditions are satisfied or waived, it will be unable to pay for the deposited securities due to any unsatisfied financing conditions.

There are no comparable financing rules applicable to plans of arrangements, but the target's board will generally take it upon itself to ensure that the bidder has adequate funding in place.

COMMENCING THE ACQUISITION

11. How is a bid commenced?

Document delivery

Take-over bid. A formal take-over bid is made by mailing a take-over bid circular to target shareholders that contains information prescribed by securities regulations (see also Question 14). The take-over bid circular must also be delivered to the target company and filed through SEDAR, which constitutes filing with applicable securities regulatory authorities. The bid can also be launched by publishing a brief summary of the bid in a newspaper advertisement, if both:

- The take-over bid circular and a request for the target's shareholders list is delivered to the target at the same time.
- The circular is immediately filed through SEDAR and sent to the target's shareholders within two business days of receiving the shareholders' list.

Plan of arrangement. For plans of arrangement, the process generally followed is for a press release to be issued by the target announcing the proposed transaction once an agreement has been entered into with the acquirer. Once prepared, an information circular and related proxy materials that contain the information prescribed by both corporate and securities regulations are mailed to shareholders. This material must also be filed through SEDAR.

Cash-only consideration. For transactions involving cash-only consideration, both the take-over bid circular and an information circular are relatively straightforward documents with limited information about the bidder and its plans for the target.

Consideration involving securities. Where the bidder's securities are being offered in exchange for the target's shares, both a take-over bid circular and information circular require prospectus-level disclosure concerning the bidder and its securities, such as financial statements (including, in some cases, pro forma consolidated financial statements of the combined entity) and the bidder's plans for the target.

Timing

Take-over bid. The lead-up to a take-over bid may include negotiation of a support agreement and a due diligence process. Once made, a formal take-over bid must be outstanding for at least 35 days before the bidder can take up shares. Where there is a variation in the terms of a take-over bid, including an increase in the bid price or any extension of the period during which securities may be tendered, a notice of variation must be sent to the target's shareholders, and the period during which shares can be tendered cannot expire before ten days after the notice of variation has been sent. The only exception to this extension of time is in the context of the waiver of a condition in a cash bid.

Where a take-over bid has been made, the target's board must send a directors' circular to the bidder and target's shareholders within 15 days after the date of the bid. In a recommended transaction, it is not uncommon for this directors' circular to be sent at the same time that the bidder sends the take-over bid circular. Any change in the information contained in the directors' circular that can reasonably be expected to affect the decision of the target's shareholders to accept or reject a take-over bid must also be sent to the bidder and the target's shareholders.

If a bid for a target company produces competing bids, the competing bidder is subject to the same timing requirements that applied to the original bidder. Strategic decisions designed to maintain or obtain timing advantages over other bidders generally determine when notices of variation of a take-over bid are issued.

Plan of arrangement. For a plan of arrangement, there are a number of distinct stages in the timetable:

Agreement. The negotiation and execution of a merger or arrangement agreement generally occurs before any public announcement of the transaction. The time needed to reach an agreement depends on many factors, including the length of the due diligence process and the speed of negotiations.

Information circular/shareholder meeting. Once an agreement has been reached and announced, the target company must prepare an information circular and proxy materials for a shareholder meeting. This can be achieved quickly or take several weeks, depending on the extent of the disclosure required in the information circular. The nature of the disclosure depends in part on whether the transaction is a cash transaction or involves the bidder's securities, in which case the target company must prepare prospectus-level information concerning the bidder and include it in the information circular. In any case, the disclosure must include a description of the process leading up to the transaction and the board's views on the transaction.

Court approval. Once the target company has prepared the information circular, it makes an application to court for a preliminary order approving the process for calling and voting at the shareholder meeting. Once the preliminary order is obtained, the documents are commercially printed and mailed to shareholders. The documents must generally be provided to intermediaries and/or mailed to shareholders at least 25 days before the shareholder meeting. If the target company receives the requisite shareholder approval, the final court application follows soon after the meeting and the closing normally occurs shortly after the final court order.

OFFER CONDITIONS

12. What conditions may be attached to a take-over bid?

There is no regulatory requirement that any particular percentage of the target's shares must be offered or bid for in a take-over bid (although at least 20% must be involved to engage the take-over rules in the first place).

The conditions attached to a take-over bid vary according to:

- The industry sector of the target.
- The nature of the consideration offered.
- The extent of regulatory approvals required.
- Whether the bid is hostile or friendly.

Common conditions include:

- A minimum percentage of shares being tendered (generally, anywhere from 50.1% to 90%).
- All required governmental approvals having been obtained, for example, under the *Competition Act* or *Investment Canada Act*.

- That no circumstance, event or development has occurred which could reasonably be expected to result in a material adverse change in the target.
- The bidder has not become aware of any misrepresentation in any document filed by the target with any government or securities regulatory authority.
- If there is a support agreement in place, that the target has not breached the support agreement and it has not been terminated by either party.
- That there has not occurred any event, action, state, condition or major financial situation of national or international consequence or any law, regulation, action or government regulation inquiry or other occurrence of any nature which does or may materially adversely affect:
 - ◊ the financial markets in Canada generally; or
 - ◊ the financial condition, business, operations, assets, affairs or prospects of the target.

Generally, a hostile bid contains additional conditions relating to the occurrence of events beyond the control of the bidder but within the control of the target. These include matters such as:

- Defensive tactics undertaken by the target.
- No material changes in the capitalisation, assets, contracts or compensation structure of the target.
- Other matters that may be of concern to the bidder.

In a plan of arrangement, conditions are negotiated and generally contained in the merger or arrangement agreement. These conditions are broadly similar to those contained in a recommended take-over bid, except that a court generally requires a 66 2/3% to 75% majority shareholder vote to approve the plan of arrangement.

It is generally open to an acquirer to waive any conditions it has imposed, subject to applicable requirements under the take-over bid rules or any applicable agreement.

BID DOCUMENTS

13. What documents do the target's shareholders receive in a take-over bid or arrangement?

Take-over bid

A target's shareholders receive two primary documents under a take-over bid:

- A take-over bid circular.
- A directors' circular.

The take-over bid circular is prepared and issued by the bidder. The purpose of this document is to communicate the terms of the offer and provide sufficient information to the target's shareholders to allow them to decide whether to accept the offer. The take-over circular must contain:

- The terms of the bid.
- The method of tendering shares to the bid and the time of payment for the shares.
- Any ownership or trading in the target's shares by the bidder or its insiders.

- The source of any funds used to make payment for the target's shares.
- Any arrangements made between the bidder and the target's directors or officers.
- Any information relating to a material change in the target known by the bidder.
- If securities are being offered as consideration for the target shares, disclosure regarding the securities and the issuer of the securities comparable to what would be provided in a prospectus.

The directors' circular is prepared by the target's board, and provides additional information relating to the bid. The directors' circular commonly contains:

- A recommendation to either refuse or accept the bid, or a statement that the board will not or cannot make a recommendation. In any event, the board must state the reasons for its decision.
- Any interests the target's directors or officers have in the transaction.
- Any arrangements between the bidder and the target's directors or officers.
- Any fairness or inadequacy opinions on valuations obtained from the target's financial advisers.

The documentation does not vary significantly between a recommended bid and a hostile bid, although in a hostile bid each circular usually contains strong arguments for accepting or rejecting the offer. In a recommended bid, however, the timing of sending the documents is co-ordinated between the parties, and each party generally has the opportunity to review the other party's document before it is sent. There is a prescribed form for both documents, and how extensive the document is depends primarily on whether the bid is an all-cash bid or involves securities of the bidder.

Note that if the documents are to be sent to shareholders in the province of Québec, a version translated into the French language must also be sent.

Plan of arrangement

In a plan of arrangement, the principal document delivered to shareholders is a management information (or proxy) circular, including:

- A notice of meeting.
- General proxy and voting information.
- A complete description of the details and consequences of (including tax consequences), and background to, the transaction.
- Prospectus-level information concerning the bidder if its securities are being offered as part of the consideration.
- The rights of dissenting shareholders.
- The form of resolution to be voted on by shareholders.

The information circular generally includes copies of:

- The arrangement agreement.
- The interim court order.
- Any fairness opinions or valuations obtained from the target's financial advisers.

The target and its board are responsible for preparation and accuracy of the information circular.

EMPLOYEE CONSULTATION

14. Are there any requirements for a target's board to inform or consult its employees about the offer?

There are generally no requirements to inform or consult employees about the offer, subject to any business considerations or particular terms of any collective agreement.

In the rare case where an acquisition transaction is effected by transferring assets, non-union employees whom the acquirer wants to come with the business must be made offers of employment by the acquiring company. Where there is a collective agreement, the acquirer is automatically subject to that agreement and the unionised employees become the acquirer's employees.

MANDATORY OFFERS

15. When is it mandatory to make an offer to all shareholders?

There is generally no requirement to make an offer to all shareholders unless both of two conditions are satisfied:

- The bidder, and the persons with whom it is acting jointly and in concert, offer to acquire any outstanding voting or equity securities of any class of a target, and
- The securities subject to the offer, together with the securities already held by the bidder (and by its joint actors), constitute in the aggregate 20% or more of the outstanding securities of that class at the date of the offer to acquire.

There are limited exemptions to triggering a mandatory take-over bid. The two most common are:

- The acquisition of not more than 5% of the target's voting or equity securities during a rolling 12-month period at prices not in excess of the market price at the date of the transaction as determined in accordance with the securities regulations, plus reasonable brokerage fees or commissions.
- The acquisition of securities from no more than five persons or companies in private transactions where the value of the consideration paid for those securities is not greater than 115% of their market price at the date of the transaction as determined in accordance with the securities regulations.

The use and timing of these exemptions is complex, and requires careful advance legal analysis to ensure that an obligation to make a take-over bid to all shareholders is not triggered inadvertently.

CONSIDERATION

16. What types of consideration may bidders offer to pay for target shares?

The forms of consideration most commonly offered in public take-overs are cash, the bidder's equity securities, or a combination of the two.

In recommended acquisitions of Canadian targets by US public companies, a common technique is to offer securities called exchangeable shares to Canadian shareholders which are, very basically, synthetic securities that mirror and are exchangeable for the bidder's foreign-listed securities, but are Canadian securities for the purposes of Canadian income tax treatment (thereby permitting deferred taxation on the sale of the target's shares by the target's shareholders).

There are no statutory or securities regulatory limitations on the type of consideration that can be offered, but there are practical limitations arising from investor needs, particularly in respect of the liquidity of any securities they receive. In addition, all shareholders must generally be offered identical consideration.

COMPULSORY PURCHASE OF SHARES NOT TENDERED

17. Can a bidder compulsorily purchase the shares of remaining shareholders who do not tender to a take-over bid or note in favour of an arrangement?

Take-over bid

Most Canadian corporate legislation permits a bidder to compulsorily acquire the target's shares that have not been tendered in a take-over bid made for all the shares of the class to which the bid relates if, within a prescribed period (usually 120 days after the date of a take-over bid), the bid is accepted by the holders of at least 90% of the shares of that class, other than shares held at the date of the take-over bid by the offeror and its affiliates and associates.

A compulsory acquisition is typically effected by delivery of a notice containing prescribed information, including the mechanism for a shareholder to exercise any dissent rights to be paid the "fair value" for his shares as determined by a court.

Where the 90% threshold is not achieved, it may be possible to implement a second-step going-private transaction or business combination that has the effect of squeezing out minority shareholders. Such a transaction can generally be implemented with a 66^{2/3}% level of approval of shareholders (including shares tendered to the bid). This requires a meeting of the remaining shareholders of the newly acquired target company, and triggers statutory rights of dissent for shareholders who do not vote in favour of the transaction to claim fair value for their shares.

Plan of arrangement

In a plan of arrangement, once the transaction is approved by the requisite vote of shareholders and by the court, all shareholders, including the minority, are bound by the transaction and implementation of the plan of arrangement will result in all the target shares being acquired, although dissenting shareholders can apply to court to be paid fair value for their shares.

RESTRICTIONS ON NEW OFFERS

18. If a take-over bid is unsuccessful, can the bidder launch a new offer or buy shares in the target?

If a bidder fails in its initial bid for a target, there are no rules precluding that bidder from commencing another bid, either on a recommended or hostile basis, although the bidder is prohibited from acquiring, by way of a transaction that is not generally available, the target's shares for 20 business days after the expiry of the bid, except for normal purchases through a stock exchange. If the bidder acquires 20% or more, then any additional purchases are subject to the take-over bid rules as well.

TARGET'S RESPONSE

19. What defensive tactics are available to a target's board take to defend a hostile bid?

Canadian law has generally developed so as to ensure that a legally compliant take-over bid is ultimately available to shareholder to accept or reject as they see fit.

The law also limits the extent to which directors can take steps to encumber or dispose of a target's assets, or issue dilutive shares to discourage an unsolicited bidder. The target's directors' responses to a hostile bid are for the most part, limited to:

- Seeking competing bidders (white knights).
- Entering into transactions involving the target's assets or shares to achieve a greater shareholder value.
- Recommending against the acceptance of a hostile bid.

To obtain some control over the bidding process, some targets, subject to stock exchange requirements (including a requirement for post-effective shareholder approval), adopt a shareholders' rights plan (or poison pill), which seeks to establish certain parameters for some of the non-pricing terms of hostile bids, either:

- Before any bid is launched, or
- Against a bid that has been made.

Shareholders' rights plans are typically terminated either voluntarily or by securities commissions at some stage after they have been invoked in a take-over bid battle. In the past, a "just say no" defence coupled with a poison pill has only rarely been upheld by Canadian courts or securities regulators in the typical take-over case, and poison pills have only been permitted to remain in place in the face of a hostile bid for a limited period of time (usually up to 60 days). Recent decisions by Canadian securities regulators have confirmed that it is generally a question of "when" and not "if" a poison pill must be terminated. However, proposals are currently out for public comment which would give more latitude to the use of rights plans, particularly where they have been approved by shareholders.

Any defensive actions approved by a target's directors must be able to withstand scrutiny by courts and securities regulators as being motivated by the best interests of the target company and its shareholders.

TRADING RESTRICTIONS

20. Following the announcement of the offer, what restrictions are there on trading?

In addition to general restrictions on insider trading, there are specific requirements which apply in the context of take-over bids.

Restrictions on acquisitions and sales during formal take-over bid

A bidder must not acquire or enter into an agreement to acquire beneficial ownership of any securities of the target class once the bid has been announced until its expiry. This restriction is subject to an exemption for acquisitions of up to 5% of the outstanding securities of the target class in normal open market purchases on a published market.

Similarly, during a formal bid, a bidder cannot sell any securities subject to the bid, except that an agreement may be entered into to sell any securities taken up under the bid following expiry of the bid provided the intention to sell is disclosed in the bid circular.

Restrictions on acquisitions after expiry of take-over bid

A bidder must not acquire any shares of the target class for 20 business days after the take-over bid has expired except through a transaction that is generally available to all holders of such shares or by normal purchases on a published market.

Disclosure of variation of terms of bid or change of information

A bidder must file a news release and send a notice to shareholders when a change occurs in the information contained in the bid circular if it could reasonably affect the decision of the shareholders or there is a variation in the terms of the offer.

Other parties

If, after a bidder makes a formal take-over bid, any other party acquires 5% or more of the class of securities subject to the bid, that party must issue a press release disclosing, among other things, the acquisition and the purpose behind it

MERGER CONTROL

21. What are the competition law requirements in relation to mergers?

Notification thresholds

A proposed transaction generally requires notification to the Competition Bureau under the federal *Competition Act* where both of two thresholds are exceeded:

- The parties to the transaction, together with all of their affiliates, collectively have assets in Canada, or gross annual revenues from sales in, from or into Canada, that exceed \$400 million (size-of-the-parties test).

- The size of the specific transaction (size-of-the-transaction test), which depends on the transaction type:
 - ◊ **Asset acquisitions and other types of business combinations (for example, non-corporate joint ventures).** The test is met if the aggregate value of the assets in Canada being acquired or the gross annual revenues from sales in or from Canada generated by those assets exceeds a certain threshold. (For 2015, the threshold is \$86 million. This amount is adjusted annually in accordance with the GDP indexing provisions.)
 - ◊ **Voting share acquisitions.** The test is met where both:
 - » the aggregate value of the assets in Canada that are owned by the target or by entities controlled by the target, or the annual gross revenues in or from Canada generated from those assets, exceed the current threshold (also \$86 million for 2015);
 - » the bidder, together with its affiliates, as a result of the proposed transaction, would own more than 20% of the voting shares of a public company or more than 35% of the voting shares of a private company. If the bidder and its affiliates already collectively surpass either the 20% or 35% thresholds, as applicable, but control less than 50% of the target's voting shares, this shareholder test would be exceeded by any subsequent share purchase that results in the bidder and its affiliates owning, directly or indirectly, more than 50% of the target's voting shares.
 - » **Corporate amalgamations.** The test is met where each of at least two of the amalgamating corporations, together with its affiliates, has assets in Canada or gross revenues from sales in, from or into Canada that exceed a certain threshold, also \$86 million.

Notification procedure

Where a proposed transaction is notifiable the transacting parties, including the target, must each file certain prescribed documentation with the pre-merger notification. Pre-merger notification filings are subject to a filing fee of \$50,000 per transaction, regardless of the size of the actual transaction or the complexity of the competition issues involved. Responsibility for the filing fee is often subject to negotiation between the parties so the filing obligation is mutual. More often than not, the purchaser will pay the full filing fee but it is also regularly shared in friendly transactions.

The information requirements to be included in the filing include:

- Copies of the transaction agreements.
- All studies, surveys, analyses and reports that were prepared or received by a senior officer or director of the corporation for the purpose of evaluating or analysing the proposed transaction.

There is a statutory waiting period of 30 days during which the parties are required to wait before completing the transaction, subject to early termination by the Commissioner of Competition. The statutory waiting period begins to run from the time that the Bureau receives the complete filing, except where the proposed transaction is a hostile bid. In practice, the Commissioner advises the parties when all the required information has been received and the date on which the statutory waiting period commences.

The Bureau has also implemented internal service standards (which are different from the statutory waiting periods). These establish soft deadlines for completion of the Bureau's review of a notified transaction, which the Bureau can normally be expected to meet. The service standard applicable to

any particular transaction, and the time expected to complete a review of the transaction, depends on whether the Bureau classifies the transaction as non-complex or complex. The target maximum turnaround time for the reviews are:

- For a non-complex transaction: 14 days.
- For a complex transaction: 45 days.

Where the Bureau fails to complete its assessment of a proposed transaction by the end of the applicable statutory waiting period, the Bureau has a number of options available if there are material concerns about the potential anti-competitive impact of a proposed transaction. For example, the Bureau can:

- Request additional information from the parties, in which case, closing would be barred until 30 days after compliance with the information request.
- Request that the parties not proceed with the transaction pending the completion of its review.
- Request that the parties only close the transaction subject to certain conditions (such as a “hold separate” agreement).

The Commissioner can also start an *ex parte* application before the Competition Tribunal for an interim order to prevent the completion or implementation of the proposed transaction.

On completing its review the Bureau issues a no-action letter, assuming it has determined, based on its review to date, that the proposed transaction is not likely to substantially lessen competition in Canada.

In addition, a process often utilised in conjunction with a pre-merger notification, or, in appropriate cases, instead of a notification, is the Advance Ruling Certificate (ARC) request. On request, the Commissioner can issue an ARC after assessing a proposed transaction and concluding that it will not result in a substantial lessening or prevention of competition in Canada. If granted, an ARC exempts the parties from their filing obligations and prevents the Commissioner from ever challenging a transaction, provided that the parties disclosed all material facts about the transaction to the Bureau in their request. If the Bureau does not grant an ARC, then a no-action letter is often issued in a non-complex transaction and the formal filing obligations of the parties are waived in such instances.

In most cases, the primary advantage of obtaining an ARC is the certainty that the Commissioner cannot challenge the transaction post-closing. Where a no-action letter is issued, the Commissioner reserves the right to challenge a transaction for a period of one year following its completion. The competitive impact analysis, which forms the basis on which the ARC is requested, is normally substantially similar to the analysis that is submitted as part of a pre-merger notification. The filing fee for an ARC is \$50,000.

Where a notifiable transaction under the *Competition Act* involves a transportation undertaking, the parties must also file a notification with the Minister of Transport pursuant to subsection 53.1 of the Canada Transportation Act. The information provided in this notification will be substantially similar to that filed with the Competition Bureau but also needs to include information concerning the public interest as it relates to national transportation.

Substantive test

The Bureau’s substantive review of any proposed merger is to determine whether the transaction will result in a substantial lessening or prevention of competition in Canada in the relevant product and geographic markets.

If the Bureau determines that the proposed transaction will substantially lessen or prevent competition, the bidder could pursue the transaction unaltered, but the Bureau would likely apply to the Competition Tribunal for an order preventing the Canadian aspects of the transaction from closing. Such contested proceedings can last several months.

The bidder can also attempt to negotiate a compromise with the Bureau that involves changes to the structure of the transaction or other actions reducing the Bureau's concerns. This can include, for example:

- Agreeing to some form of Bureau oversight.
- Eliminating potentially anti-competitive contractual provisions.
- Selling some of the assets to be acquired or other of the acquirer's assets to improve the post-transaction competitive environment.

INVESTMENT CANADA

22. What are the requirements in relation to acquisitions of Canadian businesses by non-Canadians?

In addition to restrictions relating to the level of foreign ownership of shares in some industries, the *Investment Canada Act* (ICA) provides for the review of significant investments in Canada involving acquisitions of control of a "Canadian business" by non-Canadians to ensure they are of net benefit to Canada.

Non-Canadians must file either a notification or an application for review, depending on the value of the Canadian assets or the enterprise value of the Canadian business being acquired and the industry involved.

A non-Canadian includes any entity that is not controlled or beneficially owned by Canadians. Notification must be filed by non-Canadians each time they either:

- start a new business activity in Canada, or
- acquire control of an existing Canadian business where the establishment or acquisition of control is not a reviewable transaction.

Notification must be given by the non-Canadian making the investment at any time before or within 30 days after implementation of the investment.

An investment involving an acquisition of control by a non-Canadian is reviewable (as opposed to being merely notifiable) if the asset value or the enterprise value of the Canadian business being acquired exceeds one of the following thresholds:

- If the investor is from a country that is not a member of the World Trade Organisation (WTO), any investment over \$5 million, for a direct acquisition, or over \$50 million, for an indirect acquisition. However, the \$5 million threshold applies for an indirect acquisition if the asset value of the Canadian business being acquired exceeds 50% of the asset value of the global transaction.

- If the investor is from a WTO member country, any direct investment in excess of the 2015 threshold of \$369 million. This threshold is based on the book value of assets of the Canadian business being acquired. Indirect investments by WTO investors are not reviewable. Amendments to the ICA, which are not yet in force, will increase the threshold for review for WTO investments to \$600 million, rising to \$800 million and then to \$1 billion over four years. These new thresholds will come into force on dates to be confirmed by the Canadian government. In addition, the thresholds will be based on the “enterprise value” of the Canadian business. Recently released draft regulations define “enterprise value” for public companies to be market capitalization plus liabilities minus cash and, for private companies, to be purchase price plus liabilities minus cash.
- If the investor is a WTO member but is acquiring a business engaged in cultural industries, the lower review thresholds set out in the first bullet above apply.

Review process

The Minister of Industry has 45 days from the date a complete review application is filed to determine whether the proposed investment will be of net benefit to Canada. The Minister can extend this review period by a further 30 days. Further extensions are only permitted with the applicant’s consent, although this consent is typically given. The investor cannot generally complete the proposed investment until the Minister has made a positive determination that the transaction will be of net benefit to Canada.

The factors that must be considered by the Minister in a determination as to whether a proposed investment will be of “net benefit” to Canada are the:

- Effect of the investment on the level and nature of economic activity in Canada including the effect on:
 - ◊ employment;
 - ◊ resource processing;
 - ◊ utilisation of parts, components and services produced in Canada;
 - ◊ exports from Canada.
- Significance of participation by Canadians in the existing or proposed business and in any industry in Canada of which the business forms or would form a part.
- Effect of the investment in Canada on:
 - ◊ productivity;
 - ◊ industrial efficiency;
 - ◊ technological development;
 - ◊ product innovation;
 - ◊ product variety.
- Effect of the investment on competition within any industry in Canada.
- Compatibility of the investment with national or applicable provincial industrial, economic and cultural policies.
- Contribution of the investment to Canada’s ability to compete in world markets.

The Minister has issued additional guidelines which apply to investments by foreign state-owned enterprises. In particular, recent amendments to the ICA and policy pronouncements by the Government of Canada will prohibit foreign State Owned Entities (“SOEs”) from acquiring control of Canadian oil sands businesses and, in addition, make the review of any SOE investment more stringent. For example, the Minister can now deem SOEs to have acquired “control in fact” of a Canadian business even if the existing provisions in the ICA would indicate otherwise. Secondly, the definition of an SOE has been greatly expanded (causing greater uncertainty) from entities that are controlled by foreign governments to include entities that are “influenced” by foreign governments. Finally, SOEs will have the threshold over which a formal review of the investment is triggered remain at \$369 million (indexed) and they will not benefit from the higher review threshold for other foreign investments which are slated to increase from \$600 million to \$1 billion over a four-year period, as described above.

Although it is necessary to comply fully with the notification and informational requirements of the ICA, significant investment in Canada is rarely blocked following a review under the ICA. In almost all instances, however, negotiated undertakings relating to the investor’s operation of the Canadian business going forward are given by the investor as a condition of the Minister’s approval of a reviewable transaction.

The government is also entitled under the ICA to review foreign investments that could be injurious to national security. The ICA does not define national security nor does it identify any specific factors that are to be considered in determining whether an investment is a threat to national security. However, the related regulations prescribe the various time periods within which the Minister and/or the Governor-in-Council must take actions to trigger a national security review, conduct the review and order measures to protect national security.

Other sector-specific foreign share ownership restrictions

In addition to the ICA, there are sector-specific share ownership restrictions in certain federal statutes of a regulatory nature, including the:

- Bank Act, which regulates the establishment and operations of banks in Canada.
- Broadcasting Act, which effectively prohibits non-Canadians from holding a broadcasting licence in Canada.
- Telecommunications Act, which regulates common telecommunications carriers in Canada and generally requires all carriers to be Canadian controlled.
- Canada Transportation Act, under which only Canadian- owned entities are permitted to operate a domestic air service in Canada.

Most of these sector-specific ownership restrictions are mandatory and absolute, and therefore are not subject to any waiver or application procedure.

EXCHANGE CONTROLS

23. Are there any restrictions on repatriation of profits or exchange control rules for foreign companies?

There are no exchange controls or restrictions on repatriation of profits earned in Canada by foreign entities, with the exception of:

- Generally applicable withholding taxes.
- Laws concerning Canada's international economic sanctions.
- Laws relating to the prevention of money laundering which impose certain reporting requirements.

APPENDIX A – TAKE-OVER vs. ARRANGEMENT

	Take-over Bid	Arrangement
Shareholder approval threshold	Take-over bid requires 90% acceptance to get to 100% in short time frame. If 66-2/3% acceptance achieved, a second stage transaction (e.g. amalgamation) can be used to get to 100%. This would involve a shareholder meeting.	Arrangement requires 66-2/3% approval at a shareholder meeting to obtain 100% of equity of target.
Option and other plans	Treatment of plans must be negotiated or left to post-closing. All individual option holders must agree to terminate.	Arrangement can terminate share and option plans by court order.
Closing	If 90% acceptance is achieved, offeror can acquire 100%. If only 66-2/3% acceptance is achieved, 100% cannot be obtained until closing of the second stage transaction following shareholder meeting.	100% of equity of target is acquired at closing and financing arrangements can be implemented concurrently.
Timing	Assuming no shareholder rights plan, take-over bid must be open for minimum of 35 days; procedure to obtain 100% (assuming 90% acceptance) takes a few more days, but if second stage transaction is required, further 30 plus days required.	Arrangement requires two court hearings plus approximately 30-day notice and proxy dissemination period for shareholder meeting. Any rights plan would usually be waived as part of process.
Financing/Conditions	Take-over bids must have adequate arrangements in place to pay the purchase price at the time of mailing the bid.	Conditions to closing are as negotiated and may include customary financing conditions.
Documentation	Take-over bid circular, prepared by bidder is a shorter document. Target must prepare a directors' circular.	Arrangement requires target to prepare and send proxy circular to shareholders. Court materials required for each court hearing.
Securities Regulatory	Neither take-over bid nor directors' circular requires prior regulatory review.	Draft proxy circular is submitted as part of the first court hearing in a plan of arrangement.

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