



2011 TRENDS

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CORPORATE FINANCE AND SECURITIES REGULATION

In 2010, Canadian companies and industry sectors moved from shaking off the lingering effects of the 2008 financial crisis to displaying performance and growth that has led to an increasingly positive outlook for the future. While investor wariness and volatility remained factors throughout the year, we witnessed a number of key trends that we expect to drive Canadian capital market performance in the next year. Here are some of the top trends we will be watching in 2011.

CONTINUED AND STRONG RESOURCE COMPANY ACTIVITY:

With the rising global demand for resources and prices at record highs, we expect resource-sector activity will continue to be strong and grow in 2011. New listing activity on the Toronto Stock Exchange (TSX) and the TSX Venture Exchange (TSX-V), which are currently home to approximately 35 per cent and 55 per cent of the world's public oil and gas companies and public mining companies, respectively, will continue to increase as companies look to access capital, expand operations, finance acquisitions and secure growth opportunities. Further, published data indicates that, in 2010, approximately 80 per cent of global equity financings in the mining sector were completed in Canada and the resource sectors combined for approximately two-thirds of the amount raised in the Canadian IPO market. We expect activity in these sectors to continue to lead the market in 2011 with secondary-listing activity from Australian and U.K. companies.

RETAIL STRUCTURED PRODUCT SECTOR TO SEE ROBUST PERFORMANCE IN 2011:

The retail structured product (RSP) sector has become a significant component of Canadian capital markets, with 2010 displaying significantly strong performance. We have identified four main trends that we expect to continue and drive performance in 2011: (1) issuers offering high-yield products in a predominantly low-yield environment; (2) issuers providing alternative asset classes to retail investors such as exposure to international assets or global managers/strategies such as U.S. hedge funds; (3) issuers offering increased access to assets typically difficult for retail investors to properly value and trade, such as convertible debentures; and (4) issuers providing "full-service deals" to retail investors, by overlaying strategies that brokers typically cannot provide efficiently such as covered call deals. Additionally, we expect to see robust activity in "flow-through" offerings, approaching levels not experienced since 2007.

EXPECT MORE INITIAL PUBLIC OFFERING ACTIVITY:

With unprecedented levels of capital raisings in 2008 and 2009, the initial public offering (IPO) markets have been subject to uncertainty and volatility. Despite this continued volatility, according to published data, renewing investor confidence in 2010 had Canada poised to break its previous record of C\$6.38-billion raised in IPOs in 2006, before increased volatility in the fourth quarter resulted in the Canadian IPO market topping the C\$5.5-billion mark for 2010, almost three times higher than 2009 levels. Recovery was still uneven with a number of large IPOs overshadowing the lack of activity in the mid-market (C\$200- to C\$300-million) and a number of planned IPOs being delayed or repriced late in 2010. We expect to see continued activity in IPOs in 2011.

CROSS-BORDER TRANSACTIONS AND USE OF THE MULTIJURISDICTIONAL DISCLOSURE SYSTEM TO CONTINUE TO RISE:

With Canada's earlier exit from the recession, a strengthening dollar and its relative strength in the surging resources sector, Canadian companies have been well positioned and shown strong interest and activity in cross-border financings. One increasingly popular route in 2010 was via the Canada-U.S. multijurisdictional disclosure system (MJDS), which offers a streamlined process allowing qualified issuers to access cross-border financing opportunities by complying with their home disclosure requirements, with limited additional disclosure, and requires the review of only the Canadian company's applicable Canadian regulator. 2010 saw a rise in "southbound" MJDS activity with approximately C\$100-billion in securities issued and/or registered under base shelf prospectuses, and this activity is expected to continue in 2011.

BANKS AND OTHER FINANCIAL INSTITUTIONS TO CONTINUE TO BE ACTIVE:

In 2010, significant uncertainty existed for banking institutions globally surrounding the new capital rules proposed by the Basel Committee of Banking Supervision in December 2009 (Basel III Rules), with particular confusion around what would qualify as regulatory capital for Canadian financial institutions. In September 2010, it was announced that institutions in the sector would be subject to, among other things, increased equity and capital requirements, new "capital conservation" and "counter-cyclical" buffers, and changes in criteria for non-common tier 1 and tier 2 capital instruments, to be phased-in over varying periods.

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While uncertainty continues to exist with respect to transitional provisions for existing instruments, we expect to see more capital market activity in 2011 as greater clarity develops and Canada's banking regulator, the Office of the Superintendent of Financial Institutions (OSFI) provides further guidance on the implementation and interpretation of the Basel III Rules.

EXPECT CANADIAN DOLLAR HIGH-YIELD-DEBT ISSUANCE TO INCREASE:

High-yield bonds are debt securities with below-investment-grade ratings. Historically, Canadian companies have issued high-yield bonds primarily to investors in the U.S. However, since mid-2009 through the end of 2010, nearly 20 Canadian companies have issued high-yield bonds denominated in Canadian dollars to Canadian investors, raising approximately C\$4-billion. The Canadian high-yield bond market is expected to continue to grow as Canadian investors seek attractive yields, particularly as the income trust market dissolves in January 2011 and as Canadian companies opt to issue high-yield bonds as a result of limited availability of long-term bank debt or as a favourable alternative to other financing sources.

CONTINUED USE OF INNOVATIVE DEAL STRUCTURES:

An increasing number of companies are utilizing innovative deal structures in the face of market volatility and uncertainty. One prevailing trend is the use of private investment in public equity (PIPE) transactions, which allows investors to acquire equity or equity-linked securities, sometimes in combination with debt securities, on a private placement basis. PIPE transactions offer an alternative to public financing, potentially decreased timing requirements and lower costs, as little or no customized disclosure documentation is needed, as well as little or no involvement of Canadian regulatory authorities. We have also seen a rise in creative financing structures, such as strategic partnerships, minority investments and joint ventures, particularly involving investment by foreign entities. We expect that we may see more of these creative financing structures in 2011, particularly involving foreign entities, state-owned enterprises or sovereign wealth funds.

CLEAN-TECHNOLOGY ISSUERS CONTINUE TO BE ACTIVE AND GROW:

The demand for renewable energy and clean assets will continue in 2011. Canada, with its stable economy, strong financial institutions and vast supplies of renewable resources, as well as demonstrated cleantech success, remains attractive to companies and investment. The TSX and TSX-V have more issuers listed in the sector than any exchange worldwide, with 11 new listings in 2010 and C\$1.3-billion in equity capital raised for 2010. Government incentive programs, such as the Ontario Power Authority's Feed-in Tariff Program, which provides favourable pricing and guaranteed funding structures for renewable electricity generation, will continue to prompt new renewable energy projects, providing further incentive for new listings, secondary financings for advanced-stage development and operational companies and acquisition financings as the sector approaches its consolidation phase.

CONTINUED INITIATIVES TOWARDS INCREASED OVERSIGHT AND TRANSPARENCY AND IMPLEMENTATION OF OVERSIGHT IN TRADITIONALLY UNREGULATED AREAS:

Canadian regulators such as the Canadian Securities Administrators (CSA) and provincial bodies such as the Ontario Securities Commission (OSC) will continue to focus on regulation of previously unregulated areas and increased oversight in areas already subject to regulation. Leading developments in this area include (i) proposed regulation of credit-rating agencies or credit-rating organizations; (ii) proposed changes to allow the OSC to develop and implement a "robust" framework to regulate the Canadian over-the-counter (OTC) derivatives market and strengthen oversight of alternative trading systems; and (iii) the CSA and the Investment Industry Regulatory Organization of Canada (IIROC) setting out their positions on increased transparency in 2011.

REGULATORS WILL CONTINUE TO EMPHASIZE INCREASED DISCLOSURE FOR EXECUTIVE COMPENSATION:

Last year, in an effort to bring more clarity to executive compensation disclosure and harmonize reporting rules with the new U.S. standards, the CSA proposed amendments to the current executive compensation disclosure requirements. The proposed amendments contemplate significant changes to executive compensation disclosure in order to provide investors with greater information and clarity, with additional required disclosure relating to risk management, officer and director hedging, performance goals, fees paid to compensation advisers, and the market value of vested share-based awards. If the proposed amendments are approved, they are expected to be in effect for the 2012 proxy season.

REGULATORS WILL CONTINUE TO EMPHASIZE INCREASED DISCLOSURE FOR ENVIRONMENTAL MATTERS:

In 2010, following a series of provincial developments in environmental disclosure, the CSA provided reporting issuers (other than investment funds) with guidelines and guiding principles to fulfill existing continuous disclosure obligations. There have been developments on both sides of the border regarding environmental disclosure requirements, and it is expected that, in 2011, this will continue to be an area of interest for regulators.

VOLATILITY IS THE NEW NORM:

Despite the outlook for the Canadian economy and the current perception of the Canadian capital markets and Canada's regulatory regime, over the course of 2011, we expect intervening events that will create global, regional and/or local uncertainty from time to time. With the uncertainty will come increased volatility. In 2011, all participants in the Canadian capital markets will need to be prepared for the potential of this increased volatility and adapt to it quickly.