

THE SECURITIES ACT

)

Order No. 3429

)

Section 20

)

July 17, 2001

FLAG RESOURCES (1985) LIMITED

WHEREAS:

(A) Flag Resources (1985) Limited (the "Corporation") has made an application to The Manitoba Securities Commission (the "Commission") for an order pursuant to subsection 20(1) of *The Securities Act*, R.S.M. 1988, c. S50 (the "Act") that certain trades by the Corporation in the Province of Manitoba be exempt from the provisions of sections 6 and 37 of the Act;

(B) The Corporation has represented to the Commission that:

1. The Corporation was incorporated on May 10, 1953 under *The Companies Act* (Alberta) as Bayou Exploration and Development Co. Ltd. The Corporation changed its name to Flag Oils Limited effective November 25, 1959, and then to Flag Resources Limited effective July 27, 1981. The Corporation was continued under the *Business Corporations Act* (Alberta) pursuant to Articles of Continuance dated July 25, 1984. Pursuant to Articles of Amendment dated February 28, 1985, the Corporation reorganized its capital by consolidating its common shares on a one-for-two basis and at the same time the name of the Corporation was changed to Flag Resources (1985) Limited;

2. The head and registered offices of the Corporation are located at 1650, 540 – 5th Avenue SW, Calgary, Alberta, T2P OM2;

3. The authorized capital of the Corporation consists of an unlimited number of Class A Common Shares (the "Common Shares") and 2,000,000 First Preferred Shares, issuable in series, with a stated value of \$10.00 per share, of which, as at February 13, 2001, 17,959,600 Common Shares were issued and outstanding;

4. The last offering circular prepared by the Corporation was an offering memorandum dated August 10, 2000, in respect of a private placement (the "2000 Private Placement") of units of the Corporation, each unit consisting of one "flow-through" Common Share and one Common Share purchase warrant, which offering memorandum has been filed with the Alberta Securities Commission, the Ontario Securities Commission and the Commission;

5. The Common Shares of the Corporation are listed on the Canadian Venture Exchange;

6. The Corporation is up-to-date as to all filings required to be made under the Act and its governing corporate statute, the *Business Corporations Act* (Alberta);

7. In connection with a private placement (the "1996 Private Placement") of units, each unit consisting of one "flow-through" Common Share and one Common Share purchase warrant as described in an offering memorandum of the Corporation dated June 29, 1996:

(a) the Corporation filed a Form 8 with the Commission by letter dated December 30, 1996; and

(b) the Corporation sold 210,000 Common Shares and 210,000 Common Share purchase warrants to one Manitoba purchaser on December 19, 1996, in reliance on clause 90 of the Securities Regulations to the Act (the "Securities Regulations");

8. Also in connection with the 1996 Private Placement:

(a) the Corporation filed a Form 23 with the Commission by letter dated December 24, 1996;

(b) the Corporation sold an aggregate 75,000 Common Shares and 75,000 Common Share purchase warrants to three Manitoba purchasers on January 1, 1997, for a total gross proceeds of \$34,500.00 in reliance on clause 91(a) of the Securities Regulations and the Corporation filed Form 24s in respect of these trades with the Commission by letter dated December 30, 1996; and

(c) the Corporation filed a Form 27 and a copy of the offering memorandum of the Corporation dated June 29, 1996 with the Commission by letter dated May 31, 1999;

9. Clause 92(2) of the Securities Regulations requires that a Form 27 and related offering memorandum be filed on or before the earlier of 15 days after termination of trading or 180 days after the filing of a Form 23. The Corporation failed to file a Form 27 and offering memorandum in respect of the trades referred to in paragraph No. 8(b) above within the time required by clause 92(2) of the Securities Regulations;

10. In connection with a private placement (the "1998 Private Placement") of units, each unit consisting of one "flow-through" Common Share and one Common Share purchase warrant as described in an offering memorandum of the Corporation dated November 2, 1998:

(a) the Corporation filed a Form 23 with the Commission by letter dated December 23, 1998;

(b) the Corporation sold an aggregate 120,000 Common Shares and 120,000 Common Share purchase warrants to two Manitoba purchasers on December 28, 1998 for total gross proceeds of \$18,000.00 in reliance on clause 91(b) of the Securities Regulations and the Corporation filed Form 25s in respect of these trades with the Commission by letter dated May 31, 1999; and

(c) the Corporation filed a Form 27 and a copy of the offering memorandum of the Corporation dated November 2, 1998 with the Commission by letter dated May 31, 1999;

11. The Corporation failed to file a Form 27 and offering memorandum in respect of the 1998 Private Placement within the time required by clause 92(2) of the Securities Regulations;

12. In connection with a private placement (the "2000 Private Placement") of units, each unit consisting of one "flow-through" Common Share and one Common Share purchase warrant as described in an offering memorandum of the Corporation dated August 10, 2000:

(a) the Corporation faxed and mailed a Form 23 to the Commission on December 14, 2000;

(b) the Corporation sold an aggregate 50,000 Common Shares and 50,000 Common Share purchase warrants to two Manitoba purchasers on November 24, 2000, for total gross proceeds of \$15,800.00 in reliance on clause 91(b) of the Securities Regulations;

(c) the Corporation faxed and mailed a Form 27 to the Commission on December 14, 2000; and

(d) the Corporation filed a copy of the offering memorandum of the Corporation dated August 10, 2000 with the Commission by letter dated December 14, 2000;

13. Clause 92(1) of the Securities Regulation requires that a Form 23 be filed before commencing trading in a security that is exempt under clause 91(b) of the Securities Regulation. The Corporation failed to file a Form 23 in respect of the 2000 Private Placement prior to commencing trading in Manitoba as required by clause 92(1) of the Securities Regulations.

14. The Corporation failed to file an offering memorandum in respect of the 2000 Private Placement within the time required by clause 92(2) of the Regulations;

(C) The Commission is satisfied that it would not be prejudicial to the public interest to grant the order requested.

IT IS ORDERED:

1. **THAT**, pursuant to subsection 20(1) of the Act, the trades referred to in paragraph Nos. 8(b), 10(b) and 12(b) by the Corporation in the Province of Manitoba be exempt from the provisions of sections 6 and 37 of the Act.

2. **THAT** the fee for this order is \$1,000.00.

BY ORDER OF THE COMMISSION

Director – Legal