

IN THE MATTER OF
THE SECURITIES LEGISLATION
OF BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN,
MANITOBA, ONTARIO, AND QUEBEC

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF MAPEI ACQUISITION INC. AND
CHEMBOND LIMITED

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Québec (the "Jurisdictions") has received an application (the "Application") from Mapei Acquisition Inc. (the "Applicant") for a decision pursuant to the securities legislation of the Jurisdictions (the "Legislation") that, in connection with the Offer (the "Offer") made by the Applicant to acquire all of the issued and outstanding common shares (the "Common Shares") of Chembond Limited ("Chembond"), employment agreements (the "Retention Agreements") to be entered into between Mapei and each of David Conacher ("Conacher") and Robert Welsh ("Welsh" and, collectively with Conacher, the "Key Executives") are made for reasons other than to increase the value of the consideration to be paid to the Key Executives for their Common Shares and may be entered into despite the provision in the Legislation that prohibits an offeror who makes or intends to make a take-over bid or issuer bid and any person acting jointly or in concert with the Offeror from entering into any agreement, commitment or understanding with any holder or beneficial owner of securities of the offeree issuer that has the effect of providing to the holder or owner a consideration of greater value than that offered to other holders of the same class of securities (the "Prohibition on Collateral Benefits");

AND WHEREAS pursuant to the Mutual Reliance System for Exemptive Relief Applications (the "System"), the Ontario Securities Commission is the principal regulator for the Application;

AND WHEREAS the Applicant and Mapei Inc. ("Mapei") have represented to the Decision Makers as follows:

1. Mapei is incorporated under the *Canada Business Corporations Act*. Mapei's head office is located at 2900 Francis-Hugues Avenue, Laval, Quebec, H2L 3J5. Mapei is not a reporting issuer in any of the Provinces or Territories of Canada and has no present intention of becoming a reporting issuer.

2. The Applicant is incorporated under the *Business Corporations Act* (Ontario) (the "OBCA") and is a wholly-owned subsidiary of Mapei. The Applicant has been incorporated for the sole purpose of implementing the Offer and has not carried on any prior business operations.
3. Mapei is engaged in the business of manufacturing and selling adhesive and sealants for building and industrial use.
4. Chembond is incorporated under the OBCA and is a reporting issuer in Alberta and British Columbia. Its head office is located at 2130 Williams Parkway, Brampton, Ontario L6S 5X7.
5. Chembond is engaged in the business of manufacturing and selling adhesive and construction products.
6. The authorized capital of Chembond consists of an unlimited number of Common Shares and an unlimited number of non-voting preference shares (the "Preference Shares"). As at October 8, 2001, there were 20,833,334 Common Shares issued and outstanding. The Common Shares are listed and posted for trading on the CDNX. There are no Preference Shares issued and outstanding.
7. Welsh is the Chief Technology Officer ("CTO") of Chembond. He is a co-founder of Chembond and was President of Chembond from the time it began operations in 1977 until his appointment as CTO pursuant to an employment agreement dated April 6, 2001 (the "Welsh Agreement"). As CTO, Welsh is responsible for production, research, technical and quality control in the development of Chembond's new products and sales in its specialty line of products.
8. The principal terms of the Welsh Agreement are as follows:
 - (a) the agreement is for an indefinite duration but can be terminated by Chembond with thirty days notice to Welsh;
 - (b) Chembond to provide Welsh with a leased car not to exceed \$900 per month and all reasonable expenses, including fuel;
 - (c) an annual salary of \$135,000 payable in monthly installments;
 - (d) participation in a bonus pool of up to 20% of net income prior to deduction of taxes;
 - (e) annual grant of a minimum of 100,000 options to purchase Common Shares;
 - (f) Chembond to create a self-supporting pension plan for Welsh; and
 - (g) severance compensation equivalent to three years salary and/or management fees is payable upon termination.

9. As of September 17, 2001, Welsh owned 4,395,182 Common Shares (the "Welsh Holdings") indirectly through a holding company. 2,221,554 Common Shares from the Welsh Holdings are held in escrow. The Welsh Holdings represent 35.5% of the issued and outstanding Common Shares.

10. David Conacher is the President and Chief Executive Officer of Chembond. The terms of his employment with Chembond are set out in an employment agreement dated April 6, 2001 (the "Conacher Agreement").

11. The principal terms of the Conacher Agreement are as follows:

- (a) the agreement is for an indefinite duration but can be terminated by Chembond with thirty days notice to Conacher;
- (b) Chembond to provide Conacher with a leased car not to exceed \$900 per month and all reasonable expenses, including fuel;
- (c) an annual salary of \$135,000 payable in monthly installments;
- (d) participation in a bonus pool of up to 20% of net income prior to deduction of taxes;
- (e) annual grant of a minimum of 50,000 options to purchase Common Shares;
- (f) Chembond to create a self-supporting pension plan for Conacher; and
- (g) severance compensation equivalent to three years salary and/or management fees is payable upon termination.

12. As of September 17, 2001, Conacher owned 3,010,000 Common Shares indirectly through a holding company and his spouse, Debbie Conacher, owned 34,000 Common Shares in a personal registered retirement savings account (collectively, the "Conacher Holdings"). The Conacher Holdings represent 14.7% of the issued and outstanding Common Shares.

13. The Offer was publicly announced on September 13, 2001. Pursuant to the terms of the Support Agreement (as defined in paragraph 15 below), the consideration to be paid under the Offer is \$0.10 per Common Share (the "Purchase Price"), representing a 30% premium to market price based on the 10 day average closing price of the Common Shares for the period ending on the last trading day prior to the public announcement of the Offer.

14. On September 13, 2001, Mapei also entered into lock-up agreements (the "Lock-Up Agreements") with each of the personal holding companies of Welsh, Conacher and Malcolm J. Foulkes (collectively, the "Locked-Up Shareholders") pursuant to which the Locked-Up Shareholders agreed to deposit their Common Shares under the Offer at the Purchase Price. The Locked-Up Shareholders hold, in the aggregate, 15,090,000 Common Shares, which represent approximately 72 % of the issued and outstanding Common Shares.

15. On September 17, 2001, Mapei and Chembond entered into a support agreement (the "Support Agreement") setting out the terms and conditions upon which Mapei or one of its affiliates will make the Offer and reflecting Chembond's board of directors' unanimous approval and commitment to recommend the Offer for acceptance to holders of Common Shares. The Support Agreement requires that Mapei make the Offer to all holders of Common Shares (the "Chembond Shareholders") on or before November 25, 2001.

16. Based on the Purchase Price, Welsh will receive \$439,518.20 as consideration for the Welsh Holdings.

17. Based on the Purchase Price, Conacher will receive \$304,400 as consideration for the Conacher Holdings.

18. The Key Executives have, subject to certain conditions, covenanted in their Lock-Up Agreements to enter into the Retention Agreements. The Retention Agreements are for a term of three years each and their principal terms are as follows:

(a) a non-competition covenant;

(b) a non-solicitation covenant;

(c) a confidentiality clause;

(d) a covenant requiring each of the Key Executives to devote substantially all of his time to his employment with Chembond and to work exclusively for such entity and with a view to its best interests;

(e) benefits comparable to those provided to Mapei's employees in similar circumstances and comparable levels of responsibility and in the aggregate as advantageous as Chembond's, including a vehicle allowance;

(f) an annual base salary of \$140,000;

(g) a bonus entitlement payable on 10% of Chembond's net profits for the first year, 7% of net profits for the second year and 4% of profits for the third year; and

(h) severance compensation equal to one year of annual base salary if the Key Executives is terminated without cause.

19. Mapei's ability to retain the Key Executives was critical to its decision to make the Offer and pay the Purchase Price. Mapei believes that the Key Executives have played an integral role in the successful development of Chembond's business and that they have substantial experience in the business of manufacturing industrial products. In addition, Mapei believes that maintaining continuity of senior management will be a critical element in retaining the services of Chembond's other employees after completion of the Offer.

20. The terms of the Retention Agreements were negotiated between Mapei and the Key Executives on an arms-length basis and reflect commercially reasonable terms. The consideration and other benefits to be received by the Key Executives under the Retention Agreements are reasonable in light of the services to be rendered by the Key Executives to Mapei following completion of the Offer.

21. The Retention Agreements have been entered into for valid business reasons unrelated to the Key Executives' ownership of Common Shares and not for the purpose of providing the Key Executives with greater consideration for their Common Shares than the consideration that may be received by Chembond Shareholders other than the Key Executives in connection with the Offer.

AND WHEREAS pursuant to the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers in the Jurisdictions under the Legislation is that, in connection with the Offer, the Retention Agreements are being entered into for reasons other than to increase the value of the consideration paid to the Key Executives in respect of their Common Shares and may be entered into notwithstanding the Prohibition on Collateral Benefits.

DATED this 24th day of October, 2001.

"R. Stephen Paddon"

"Lorne Morphy"

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – Employment agreements to be entered into between offeror and key executives of the offeree who are also selling securityholders of the offeree – Terms of new employment agreements similar to or less generous than existing employment agreements between key executives and offeree – Terms of new employment agreements negotiated on arm's length basis, reflect commercial reasonable terms and reasonable in light of services to be rendered by key executives – Decision made that agreements being entered into for reasons other than to increase the value of the consideration paid to the selling securityholders for their shares and that such agreements may be entered into notwithstanding the prohibition on collateral benefits.

Applicable Statutory Provisions

Securities Act, R.S.O. 1990, c. S.5, as amended, ss. 97 and 104(2)(a)