



February 27, 2017

Biopep Solutions Inc.
#220 – 13071 Vanier Place
Richmond BC V6V 2J1

Attention: Yalcin Ilsever, CFO

Dear Yalcin:

Re: Equity Authorization - Eligible Business Corporation #31-325

This equity authorization is granted by the Administrator of the *Small Business Venture Capital Act* ("the Act") on the understanding that Biopep Solutions Inc. (the "EBC") has complied and will continue to comply with the Act and Regulations. In accordance with section 28.3 of the Act, the EBC is hereby authorized to raise equity capital subject to the following conditions:

Budget	Tax Budget Year	Equity Authorization	Effective Date	Expiry Date
Equity Capital Budget	2017	\$4,965,000	February 21, 2017	December 31, 2017

This equity authorization may be withdrawn at any time with limited notice.

This Equity Authorization is not a guarantee that investors will receive tax credits. Tax credit budgets are limited and tax credits are available on a first come, first serve basis. EBCs should claim tax credits through the eTCA system as soon as investment has been raised, and Share Purchase Reports and tax credit application requirements have been met.

As the EBC may qualify for an Equity Authorization under more than one budget, we reserve the right to allocate any funds raised by the EBC to the budget indicated above, or another eligible budget. See Schedule A for budget descriptions.

The requirements for equity capital raised under this program to qualify for tax credits are outlined in the attached "Appendix A"

It is essential that you read and understand the terms of this equity authorization and the procedures that you must follow to report investments raised under this equity authorization and how to obtain tax credits for your investors.

Parties relying on this authorization are advised that:

1. Our review of the Registration Application was limited to a determination of the EBC's eligibility under the Act, irrespective of the documentation attached to the application.
2. The Province of British Columbia does not in any way express an opinion as to the value of any shares issued by the EBC, the financial condition of the EBC or the merits of any investment or business proposal.
3. This ruling has been based on information provided without verification as to the accuracy or completeness of disclosure.
4. This ruling should not be viewed as precedent setting or applicable to any investment or business proposal.

Periodic updates on the availability of program budgets, and other important notices relating to the program, will be posted to the program's web-site at www.equitycapital.gov.bc.ca, accordingly, please ensure that you regularly review the web-site. In addition, as email will be the primary method of communication between your Portfolio Manager and the EBC, please ensure the email address you provided will be regularly monitored, specifically: y.ilsever@biopeps.com

The EBC is also required to notify the Administrator within 30 days of any transaction or event that may impact on the EBC's ability to comply with its obligations under the Act or Regulations. For further information on this please refer to Regulation #14.

If you have any questions, please contact the undersigned at 1-250-574-6851.

Sincerely,



David Baleshta
Portfolio Manager
Investment Capital Branch

Appendix A

Eligibility

In accordance with section 28.2 of the Act, this equity authorization has been granted to the EBC on the understanding that it continues to meet the eligibility criteria, specifically:

1. The EBC, together with any affiliates, has no more than 100 employees.
2. At least 75% (adjusts to 50% if primarily engaged in exporting) of the EBC's wages and salaries is or will be paid to employees who regularly report to work in British Columbia.
3. The EBC is or will be substantially engaged in a prescribed business activity where:
 - More than 50% of the EBC's total assets and expenses must be applied to its eligible activity or more than 50% of the EBC's total revenues must be generated from its eligible activity.
 - The EBC must maintain at least 80% of its assets in British Columbia.
 - The EBC must maintain a permanent establishment in British Columbia.
 - The EBC has equity capital of at least \$25,000.

See 'Budget Descriptions' below for further information on eligibility criteria.

Qualifying Activities

The EBC must be substantially engaged in one of the six qualifying activities from the time of registration to five years after the date of the last investment for which an investor received a tax credit. See the program web-site for descriptions of each qualifying activity (www.mit.gov.bc.ca/icp). The six qualifying activities are:

1. Manufacturing and processing of goods produced in British Columbia;
2. Destination tourism;
3. Research and development of proprietary technology;
4. Development of interactive digital new media product;
5. Community diversification outside of the Lower Mainland and the Capital Region; and
6. Development of clean technologies.

Substantially Engaged in a Qualifying Activity

To be substantially engaged, more than 50 percent of the assets and expenses of the business are used in (or more than 50 percent of the revenue is derived from) one or more of the prescribed qualifying activities.

$$\text{Formula: } \frac{\text{Qualifying Activity Assets} + \text{Qualifying Activity Expenses}}{\text{Total Assets} + \text{Total Expenses}} > 0.5$$

Where,

Activity Assets = the value of assets of the small business used in B.C. in the prescribed business activity.

Total Assets = the total value of all assets of the small business.

Activity Expenses = the expenses of the small business incurred during the calculation period with respect to the portion of the prescribed business activity carried on in B.C. (Costs incurred outside B.C. that are deemed Activity Expenses are costs to market technology to clients outside B.C., attendance at international trade shows, and operation of a demonstration or prototype facility.)

Total Expenses = the total of all expenses of the small business incurred during the calculation period with respect to all operations of the small business.

Share Issuance

In accordance with section 28.3 of the Act, this equity authorization has been granted to the EBC on the understanding that:

The EBC must not issue shares that:

- will carry special rights or restrictions that create a debt between an eligible investor and the EBC, or
- reduce any loss an eligible investor may sustain in holding or disposing of the shares, or
- require the EBC to repurchase the shares within five years from the date of issue; or
- carry 50% or more of the votes for the election of directors of the eligible business corporation; and
- will be held by an investor who has disposed of any EBC shares during the past two years immediately preceding the date of issue.

The EBC must issue shares that are fully paid for in cash by an eligible investor. The EBC must ensure that eligible investors complete a **Share Purchase Report** (www.mit.gov.bc.ca/icp) at the time of purchase. To determine compliance, the EBC may be asked to verify receipt of cash before tax credit certificates are processed.

Share Transfers

Eligible investors must hold their shares for five years. Except in circumstances set out in Regulation 3.1, the EBC must not allow shares held by an eligible investor who received a tax credit to be redeemed, acquired or cancelled until the investor has held the shares for five years.

Investors who dispose of shares within five years must repay 100% of the tax credit issued, pursuant to section 28.92 of the Act. For conditions regarding the redeeming, acquiring and cancelling of shares by an EBC, please see section 28.91 of the Act. Additionally, the EBC must not register a transfer of shares held less than 5 years, unless the investor has repaid 100% of the tax credit, or met other prescribed circumstances, pursuant to section 28.6 (5) of the Act..

Prohibited Use of Funds

The equity capital raised under this authorization must not be used for any of the prohibited purposes set out in section 28.93 of the Act. Prohibited use of funds includes:

- Lending;
- Investments outside British Columbia;
- Investment in land (unless incidental to an investment in a small business);
- Acquiring securities;
- Purchasing goods and services from an eligible investor or an associate of an eligible investor (other than goods or services sold at fair market value);
- Payment for all or part of a debt obligation;
- Purchase or redemption of previously issued shares of the EBC or affiliates;
- Retirement of any part of a liability to a shareholder of the EBC;
- Payment of dividends;
- Except in prescribed circumstances, the funding of all or part of the purchase by an EBC of all or substantial assets of a proprietorship, partnership, JV, trust or corporation;
- Purchase of any assets above fair market value.

Tax Credits

1. Tax credits are available on a first come, first serve basis. The tax credit budget is limited by section 29.1 of the Act, and section 21 of the Regulations.

EBCs and investors should note that once the tax credit limit has been reached an investment in the EBC will not qualify for tax credits. The Electronic Tax Credit Application (eTCA) system will not accept an investment record when the equity authorization has been used or the tax credit budget limit has been reached. It is imperative that the EBC submit the investment records through the eTCA system as soon as all of the share purchase report and tax credit application requirements have been met.

2. Individuals or corporations as defined by section 2 of the Income Tax Act of British Columbia are eligible for receipt of tax credit certificates.

Tax credit certificates issued to individuals are refundable. Those issued to corporations must be applied against B.C. taxes payable. Both individuals and corporations may carry their tax credits forward four years.

Individuals who purchase shares in the first 60 days of a calendar year can apply the tax credit to the previous year's tax return. Corporate investors cannot do this and must apply the tax credit to the tax return for the year in which the investment was made.

3. Please ensure that all EBC investors complete and sign a Share Purchase Report at the time they purchase the shares. It is incumbent upon the EBC to ensure that the Share Purchase Reports are completed properly (i.e. all relevant boxes filled in) and signed by the investors. We may request to see these on a periodic basis. Failure to produce these reports or improperly completed reports may result in a refusal to issue tax credit certificates or revocation of previously issued tax credit certificates. The share purchase report form is available on our website (www.mit.gov.bc.ca/icp).
4. The EBC is required to file a Tax Credit Application on behalf of its shareholders requesting that the Administrator issue tax credit certificates to eligible investors. EBC's apply for tax credits through the eTCA system. All investments must be reported through the eTCA system to be eligible for tax credit certificates. The directors and officers of the EBC should make themselves aware of the tax credit application certification.

You must obtain a BCeID to access this system. Your portfolio manager can provide instructions on how to obtain a BCeID.

5. Investors cannot claim tax credits if they, along with "associates" (family members – see section 1 of the Act for definition) and "affiliates" (companies under common control – see section 1 of the Act for definition), own directly or indirectly, 50% or more of the voting shares, or will in any manner, control the EBC.

Reporting Requirements

Pursuant to section 28.97 of the Act, the EBC must file an **Annual Return** with our office within six months of the EBC's financial year end. The Annual Return includes an Annual Return form (www.mit.gov.bc.ca/icp), financial statements, Central Securities Register, and Annual Return filed with the B.C. Registrar of Companies. Failure to file an Annual Return on time will constitute non-compliance, and will impact the issuance of tax credit certificates and requests to raise additional equity capital under the program. Failure to submit an Annual Return within six months of the EBC's year end will result in "suspension" of registration, which could result in "revocation" of registration and a demand to repay tax credits.

- EBCs that have raised less than \$500,000 in equity capital can submit "notice to reader" financial statements with their Annual Return.
- EBCs that have raised \$500,000 and more in equity capital must submit "review engagement" audited financial statements with their Annual Return.

Audit

Each year the ministry contracts auditors to audit a selection of EBCs to ensure their compliance with the Act and regulations. The audit involves on-site visits, and a review of financial statements and business records. Ideally, each EBC will be audited at least once during the period between registration in the program and the end of the last investor's 5 year investment hold period.

General Information

Any information collected as a result of your company's participation in the Investment Capital Branch's Venture Capital Programs is done under the authority of the *Small Business Venture Capital Act* and is subject to the provisions of the *Freedom of Information and Protection of Privacy Act*. Please review your company's responsibilities under the *Personal Information Protection Act* with respect to the collection and use of sensitive information such as your investors' names, addresses and social insurance numbers.

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Failure to comply with the above requirements may trigger a demand for repayment of any tax credits provided to EBC investors.

Budget Descriptions

The **Equity Capital Budget** was created to encourage equity investment in eligible small businesses in British Columbia. To recognize the risk element involved in making equity investments, the Province provides a 30% refundable tax credit to investors who invest in eligible small businesses under the program. A small business must meet the following requirements to qualify as an 'eligible small business' under the program:

1. The EBC, together with any affiliates, has no more than 100 employees.
2. At least 75% (adjusts to 50% if primarily engaged in exporting) of the EBC's wages and salaries is or will be paid to employees who regularly report to work in British Columbia.
3. The EBC is or will be substantially engaged in a prescribed business activity where:
 - More than 50% of the EBC's total assets and expenses must be applied to its eligible activity or more than 50% of the EBC's total revenues must be generated from its eligible activity.
 - The EBC must maintain at least 80% of its assets in British Columbia.
 - The EBC must maintain a permanent establishment in British Columbia.
 - The EBC has equity capital of at least \$25,000.

The **Business Creation Venture Capital Budget** supports the development and growth of new, young businesses in B.C. To qualify under the Business Creation budget an eligible small business must meet the Equity Capital Budget criteria, and:

- be younger than two years at the time of registration in the program, measured from the business's incorporation date.

The **Community Venture Capital Budget** supports regional economic diversification. To qualify under the Community Venture Capital Budget an eligible small business must meet the Equity Capital Budget criteria, and must also be substantially engaged in an activity that promotes community diversification.

The **Cleantech Venture Capital Budget** supports the government's commitment to stimulate investment in the thriving 'Cleantech' sector. To qualify under the Cleantech Venture Capital Budget an eligible small business

must meet the Equity Capital Budget criteria, and be substantially engaged in the manufacture and processing and research and development within British Columbia for commercial exploitation of technologies that:

1. increase energy efficiency and conservation, or
2. reduce greenhouse gas emissions, or
3. reduce the environmental impact of energy production, generation, storage, transmission, delivery, provision or conversion.

The **New Media Venture Capital Budget** supports the government's commitment to stimulate investment in the thriving 'New Media' sector. To qualify under the New Media Venture Capital Budget an eligible small business must meet the Equity Capital Budget criteria, and be substantially engaged in the development within British Columbia for commercial exploitation of interactive digital media products that:

1. Educates, informs or entertains and presents information using at least two of the mediums of text, sound or visual images;
2. Is not developed for internal corporate use involving the promotion of products or services;
3. Is not used primarily for interpersonal communication; and
4. Is not a product for which public financial support would, in the opinion of the certifying authority, be contrary to public policy.