

ALLIED MOTION TECHNOLOGIES INC  
Form 10-Q  
May 16, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**Form 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**

**For the quarterly period ended March 31, 2011**

**Commission File Number**

**0-04041**

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**ALLIED MOTION TECHNOLOGIES INC.**

Incorporated Under the Laws of the State of Colorado

**Colorado**  
(State or other jurisdiction of

**84-0518115**  
(I.R.S. Employer

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incorporation or organization)

Identification No.)

**23 Inverness Way East, Suite 150**

**Englewood, Colorado 80112**

**Telephone: (303) 799-8520**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of Shares of the only class of Common Stock outstanding: 8,465,627 as of May 16, 2011

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)

**(Unaudited)**

	March 31, 2011	December 31, 2010
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,317	\$ 3,553
Trade receivables, net of allowance for doubtful accounts of \$234 and \$226 at March 31, 2011 and December 31, 2010, respectively	13,511	11,753
Inventories, net	13,093	11,787
Deferred income taxes	405	402
Prepaid expenses and other assets	1,850	1,415
Total Current Assets	31,176	28,910
Property, plant and equipment, net	7,082	6,923
Deferred income taxes	5,431	5,533
Intangible assets, net	3,734	3,704
Goodwill	6,315	5,936
Total Assets	\$ 53,738	\$ 51,006
<b>Liabilities and Stockholders Investment</b>		
Current Liabilities:		
Debt obligations	846	795
Accounts payable	7,712	6,506
Contingent consideration	2,555	314
Accrued liabilities	6,150	6,976
Income taxes payable	798	562
Total Current Liabilities	18,061	15,153
Contingent consideration		2,386
Deferred income taxes	1,102	1,070
Pension and post-retirement obligations	2,454	2,453
Total Liabilities	21,617	21,062
Commitments and Contingencies		
Stockholders Investment:		
Common stock, no par value, authorized 50,000 shares; 8,408 and 8,110 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	20,709	20,473
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares issued or outstanding		
Retained earnings	10,555	9,342
Accumulated other comprehensive income	857	129
Total Stockholders Investment	32,121	29,944
Total Liabilities and Stockholders Investment	\$ 53,738	\$ 51,006

See accompanying notes to financial statements.



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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, except per share data)

**(Unaudited)**

	For the three months ended March 31,	
	2011	2010
Revenues	\$ 26,724	\$ 17,422
Cost of products sold	18,775	13,017
Gross margin	7,949	4,405
Operating costs and expenses:		
Selling	1,462	941
General and administrative	2,966	2,059
Engineering and development	1,534	1,013
Amortization of intangible assets	180	165
Insurance recoveries		(685)
Total operating costs and expenses	6,142	3,493
Operating income	1,807	912
Other (expense) income, net:		
Interest expense	(24)	(3)
Other income, net	1	155
Total other (expense) income, net	(23)	152
Income before income taxes	1,784	1,064
Provision for income taxes	(571)	(330)
Net income	\$ 1,213	\$ 734
Basic net income per share:		
Net income per share	\$ 0.15	\$ 0.09
Basic weighted average common shares	8,279	7,764
Diluted net income per share:		
Net income per share	\$ 0.14	\$ 0.09
Diluted weighted average common shares	8,495	7,768

See accompanying notes to financial statements.

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## ALLIED MOTION TECHNOLOGIES INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

**(Unaudited)**

	For the three months ended March 31,	
	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 1,213	\$ 734
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	542	496
Other	218	70
Changes in assets and liabilities:		
Trade receivables	(1,447)	(1,390)
Inventories, net	(995)	(577)
Prepaid expenses and other assets	(404)	113
Accounts payable	988	1,887
Accrued liabilities	(768)	289
Net cash (used in) provided by operating activities	(653)	1,622
<b>Cash Flows From Investing Activities:</b>		
Contingent consideration paid for acquisition	(332)	
Purchase of property and equipment	(428)	(304)
Net cash used in investing activities	(760)	(304)
<b>Cash Flows From Financing Activities:</b>		
Repayments on lines-of-credit, net		(278)
Stock transactions under employee benefit stock plans	95	80
Net cash provided by (used in) financing activities	95	(198)
Effect of foreign exchange rate changes on cash	82	(279)
Net (decrease) increase in cash and cash equivalents	(1,236)	841
Cash and cash equivalents at beginning of period	3,553	4,470
Cash and cash equivalents at end of period	\$ 2,317	\$ 5,311

See accompanying notes to financial statements.

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ALLIED MOTION TECHNOLOGIES INC.

**1. Basis of Preparation and Presentation**

Allied Motion Technologies Inc. (the Company) is engaged in the business of designing, manufacturing and selling motion control products to a broad spectrum of customers throughout the world.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using end of period exchange rates. Changes in reported amounts of assets and liabilities of foreign subsidiaries that occur as a result of changes in exchange rates between foreign subsidiaries functional currencies and the U.S. dollar are included in foreign currency translation adjustment. Foreign currency translation adjustment is included in accumulated other comprehensive income, a component of stockholders' investment in the accompanying condensed consolidated balance sheets. Revenue and expense transactions use an average rate prevailing during the month of the related transaction. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency of each Technology Unit are included in the results of operations as incurred.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission and include all adjustments which are, in the opinion of management, necessary for a fair presentation. Certain information and footnote disclosures normally included in financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures herein are adequate to make the information presented not misleading. The financial data for the interim periods may not necessarily be indicative of results to be expected for the year.

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

It is suggested that the accompanying condensed interim financial statements be read in conjunction with the Consolidated Financial Statements and related Notes to such statements included in the Annual Report on Form 10-K for the year ended December 31, 2010 that was previously filed by the Company.

**2. Inventories**



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Inventories, valued at the lower of cost (first-in, first-out basis) or market, are as follows (in thousands):

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Parts and raw materials	\$ 10,927	\$ 10,068
Work-in process	2,138	2,001
Finished goods	2,208	1,937
	15,273	14,006
Less reserves	(2,180)	(2,219)
Inventories, net	\$ 13,093	\$ 11,787

Table of Contents**3. Property, Plant and Equipment**

Property, plant and equipment is classified as follows (in thousands):

	March 31, 2011	December 31, 2010
Land	\$ 290	\$ 290
Building and improvements	3,390	3,310
Machinery, equipment, tools and dies	12,310	12,330
Furniture, fixtures and other	2,333	2,005
	18,323	17,935
Less accumulated depreciation	(11,241)	(11,012)
Property, Plant and Equipment, net	\$ 7,082	\$ 6,923

**4. Stock-Based Compensation***Stock Incentive Plans*

The Company's Stock Incentive Plans provide for the granting of stock awards, including stock options, stock appreciation rights and restricted stock, to employees and non-employees, including directors of the Company.

*Stock Options*

The following is a summary of option activity, during the quarter ended March 31, 2011:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	300,000	\$ 4.93	0.5	\$ 581,000
Forfeited				
Exercised	(163,375)	\$ 4.63		
Outstanding at end of Period	136,625	\$ 5.30	0.3	\$ 232,000
Exercisable at end of period	136,625	\$ 5.30	0.3	\$ 232,000

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All stock options are fully vested, and the Company did not recognize any compensation expense relating to outstanding stock options during 2011 or 2010.

### *Stock Warrants*

As of March 31, 2011, the Company had 72,582 warrants outstanding to purchase common stock that are exercisable at an exercise price of \$4.41. The warrants were issued May 10, 2004, in connection with an acquisition, and will expire May 10, 2011.

Subsequent to March 31, 2011, the remaining 72,582 warrants were exercised. As permitted under the warrant agreements, the warrants were exercised in a cashless transaction, and the total shares issued as a result of the warrant exercises was 25,716 shares.

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***Restricted Stock***

In the quarter ended March 31, 2011, 130,200 shares of unvested restricted stock were awarded at a weighted average value of \$7.08. Of the restricted shares granted, 40,000 shares have performance based vesting conditions. The value of the shares are amortized to compensation expense over the related service period, which is normally three years, or over the estimated performance period. Shares of nonvested restricted stock are forfeited if a recipient leaves the Company before the vesting date. Shares that are forfeited become available for future awards.

The following is a summary of restricted stock activity during the quarter ended March 31, 2011:

	<b>Number of Shares</b>
Outstanding at beginning of period	379,079
Granted	130,200
Forfeited	
Vested	(221,974)
Outstanding at end of Period	287,305

For the quarter ended March 31, 2011 and 2010, compensation expense, net of forfeitures, of \$142,000 and \$108,000 was recorded, respectively.

**5. Earnings per Share**

Basic income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted income per share is determined by dividing the net income by the sum of (1) the weighted average number of common shares outstanding and (2) if not anti-dilutive, the effect of stock awards determined utilizing the treasury stock method. The dilutive effect of outstanding awards for the quarters ended March 31, 2011 and 2010 was 215,000 and 4,000 shares, respectively. Stock awards to purchase 790,000 shares of common stock were excluded from the calculation of diluted income per share for the quarter ended March 31, 2010, since the results would have been anti-dilutive.

**6. Segment Information**

ASC Topic Segment Reporting requires disclosure of operating segments, which as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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The Company operates in one segment for the manufacture and marketing of motion control products for original equipment manufacturers and end user applications. In accordance with the Segment Reporting Topic of the ASC, the Company's chief operating decision maker has been identified as the Chief Executive Officer and President, which reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Existing guidance, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under Segment Reporting due to their similar customer base and similarities in: economic

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characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by Segment Reporting can be found in the accompanying consolidated financial statements and within this note.

The Company's wholly owned foreign subsidiaries, Premotec (Dordrecht, The Netherlands), Östergrens (Solna, Sweden), and Allied Motion Canada (Waterloo, Ontario, Canada), are included in the accompanying consolidated financial statements. Financial information related to the foreign subsidiaries is summarized below (in thousands):

	As of and for the three months ended March 31,			
	2011		2010	
Revenues derived from foreign subsidiaries	\$	12,544	\$	5,928
Identifiable assets	\$	25,325	\$	11,246

Sales to customers outside of the United States by all subsidiaries were \$13,449,000 and \$7,510,000 during the quarters ended March 31, 2011 and 2010, respectively.

During the quarters ended March 31, 2011 and 2010, no single customer accounted for more than 10% of total revenues.

**7. Comprehensive Income**

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by and distributions to stockholders.

Comprehensive income is computed as follows (in thousands):

	For the three months ended March 31,			
	2011		2010	
Net income	\$	1,213	\$	734
Foreign currency translation adjustment		728		(503)
Comprehensive income	\$	1,941	\$	231

**8. Intangible Assets**

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Intangible assets on the Company's consolidated balance sheets consist of the following (in thousands):

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>Estimated Life</b>
<b>Amortizable intangible assets</b>			
Customer lists	\$ 4,527	\$ 4,371	8-10 years
Trade name	946	946	10 years
Design and technologies	2,793	2,633	8-10 years
Patents	24	24	
Accumulated amortization	(4,556)	(4,270)	
<b>Total intangible assets</b>	<b>\$ 3,734</b>	<b>\$ 3,704</b>	

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Amortization expense for intangible assets for the quarters ended March 31, 2011 and 2010 was \$180,000 and \$165,000, respectively.

**9. Goodwill**

The change in the Company's goodwill during the quarter ended March 31, 2011 is summarized in the table below (in thousands):

Balance, December 31, 2010	\$	5,936
Currency translation		379
Balance, March 31, 2011	\$	6,315

**10. Contingent Consideration**

In conjunction with the acquisition of Östergrens, the Company recorded contingent cash consideration based on the seller meeting certain performance criteria. The Company paid a portion of the contingent consideration in the quarter ended March 31, 2011. The remaining portion of contingent consideration accrued is \$2,555,000 as of March 31, 2011 and is expected to be paid in the first quarter of 2012. The contingent consideration is management's best estimate through the date of the financial statements. No adjustments to management's estimate of the contingent consideration were made in the quarter ended March 31, 2011.

**11. Debt Obligations**

Debt obligations consisted of the following (in thousands):

	March 31, 2011	December 31, 2011
<b>Credit Agreement (at variable rates)</b>		
Revolving line-of-credit, 2.90% as of March 31, 2011	\$ 846	\$ 795

The Company's amended Credit Agreement, which matures October 26, 2012, provides revolving credit up to \$4 million and 3 million.

The amended Credit Agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the Company. The Company was in compliance with all covenants at March 31, 2011.



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At March 31, 2011, approximately \$7,400,000 million (\$4 million and 2.4 million) was available under the amended Credit Agreement and approximately \$750,000 ( 300,000 and 2,100,000 Swedish Krona ( SEK )) was available under bank overdraft facilities in Europe.

### 12. Acquisition of Ostergrens

On December 30, 2010, Allied Motion Technologies, B.V., a wholly-owned subsidiary of Allied Motion Technologies Inc., acquired 100% of the shares of Ostergrens Elmotor AB (Ostergrens), headquartered in Solna, Sweden. The accompanying condensed consolidated financial statements include the operating results of Ostergrens for the first quarter ended March 31, 2011.

The following presents the Company's unaudited pro forma financial information for the quarter ended March 31, 2010 after certain pro forma adjustments giving effect to the acquisition

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of Ostergrens as if it had occurred at January 1, 2010. The pro forma financial information is for information purposes only and does not purport to present what the Company's results would actually have been had the acquisition occurred on that date or to project the Company's results for operations for any future period:

	<b>For the three months ended March 31, 2010</b>	
Revenues	\$	22,003
Gross margin	\$	5,870
Operating income	\$	1,167
Net income	\$	875
Diluted net income per share	\$	0.11

**13. Reclassifications**

Certain prior year balances were reclassified to conform to the current year presentation. Those reclassifications had no impact on net income, stockholders' investment or cash flows from operations as previously reported.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*All statements contained herein that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the word believe, anticipate, expect, project, intend, will continue, will likely result, should or words or phrases of similar meaning. Forward-looking statements involve known and unknown risks and uncertainties that may cause actual results of the Company to differ materially from the forward-looking statements. The risks and uncertainties include those associated with the present economic circumstances in the United States and throughout Europe, general business and economic conditions in the Company's motion markets, introduction of new technologies, products and competitors, the ability to protect the Company's intellectual property, the ability of the Company to sustain, manage or forecast its growth and product acceptance, success of new corporation strategies and implementation of defined critical issues designed for growth and improvement in profits, the continued success of the Company's customers to allow the Company to realize revenues from its order backlog and to support the Company's expected delivery schedules, the continued viability of the Company's customers and their ability to adapt to changing technology and product demand, the loss of significant customers or enforceability of the Company's contracts in connection with a merger, acquisition, disposition, bankruptcy, or otherwise, the ability of the Company to meet the technical specifications of its customers, the continued availability of parts and components, increased competition and changes in competitor responses to the Company's products and services, changes in government regulations, availability of financing, the ability of the Company's lenders and financial institutions to provide additional funds if needed for operations or for making future acquisitions or the ability of the Company to obtain alternate financing if present sources of financing are terminated, the ability to attract and retain qualified personnel who can design new applications and products for the motion industry, the ability of the Company to identify and consummate favorable acquisitions to support external growth and new technology, the ability of the Company to successfully integrate an acquired business into the Company's business model without substantial costs, delays, or problems, the ability of the Company to establish low cost region manufacturing and component sourcing capabilities, and the ability of the Company to control costs, including relocation costs, for the purpose of improving profitability. The Company's ability to compete in this market depends upon its capacity to anticipate the need for new products, and to continue to design and market those products to meet customers' needs in a competitive world. Actual results, events and performance may differ materially.*



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*Readers are cautioned not to place undue reliance on these forward-looking statements as a prediction of actual results. The Company has no obligation or intent to release publicly any revisions to any forward looking statements, whether as a result of new information, future events, or otherwise.*

*New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. The Company's expectations, beliefs and projections are expressed in good faith and are believed to have a reasonable basis; however, the Company makes no assurance that expectations, beliefs or projections will be achieved.*

**Overview**

Allied Motion's sole focus is in the motion control industry and has developed a long term corporate strategy, with a defined driving force of electro-magnetic, mechanical and electronic motion technology/know how to ensure it meets the goals and objectives of the Company. Through its sales force and its Technology Units (TUs), Allied Motion designs, manufactures and sells motion products to a broad spectrum of customers throughout the world. The Company's commitment to its own lean manufacturing tool kit, known as Allied's Systematic Tools, or AST for short, drives continuous improvement in quality, delivery, cost, growth and innovation throughout the company.

Examples of the end products using Allied Motion's technology in the medical and health care industries include surgical robots, prosthetics, electric powered surgical hand pieces, programmable pumps to meter and administer infusions associated with chemotherapy, pain control and antibiotics; nuclear imaging systems, automated pharmacy dispensing equipment, kidney dialysis equipment, respiratory ventilators and heart pumps, wheel chairs, scooters, stair lifts, patient lifts, patient handling tables and beds. In electronics, our products are used in the handling, inspection, and testing of components and in the automation and verification of final products such as PCs, game equipment and cell phones. Our motors are used in the HVAC systems of trucks, buses, RVs, boats and off-road construction/farming equipment. These motors operate a variety of actuation systems (e.g., lifts, slide-outs, covers etc.), they provide improved fuel efficiency while the vehicles are idling and are used in drive-by-wire applications to electrically replace or power-assist a variety of mechanical linkages. Our products are also utilized in high performance vehicles, vehicles using alternative fuel systems such as LPG, fuel cell and hybrid vehicles. Our geared motor products are utilized in automated material handling vehicles/robots, commercial grade floor cleaners, commercial building equipment such as welders, cable pullers, assembly tool, etc. Several products are used in a variety of military/defense applications including inertial guided missiles, mid range munitions systems, weapons systems on armed personnel carriers, unmanned vehicles and in security and access control in camera systems, door access control and in airport screening and scanning devices. Other end products utilizing our technology include high definition printers; tunable lasers and spectrum analyzers for the fiber optic industry; processing equipment for the semiconductor industry, as well as ticket and cash dispensing machines (ATMs).

Allied Motion is organized into six TUs: Emoteq Corporation (Emoteq Tulsa, OK), Motor Products Corporation (Motor Products Owosso, MI), Stature Electric, Inc. (Stature Watertown, NY), Allied Motion Controls (Amherst, NY and Waterloo, Ontario, Canada, acquired in 2010, formerly known as Agile Systems Inc.), Precision Motor Technology B.V. (Premotec Dordrecht, The Netherlands), and Östergrens Elmotor AB (Östergrens Solna, Sweden and Changzhou, China), which was acquired in 2010. Allied Motion also has contract production capabilities in Slovakia and China.

The TUs offer a wide range of standard and customized motors, encoders and drive electronics for original equipment manufacturers (OEM) and end user applications. A particular strength of each company is its ability to design and manufacture high quality custom motion control solutions to meet the needs of its customers.



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**Outlook**

After having a record year in both profits and orders in 2010, conditions have continued to be strong, and management continues its efforts to foster additional growth in revenues and profitability. Orders for the quarter ended March 31, 2011 were \$26.4 million compared to \$26.2 million in the same quarter of last year. Backlog at March 31, 2011 was \$38.7 million, reflecting a 33% increase over the backlog at the same time last year. The increased backlog levels reflect the economic recovery experienced during the last 12 months in the Company's served markets as well as orders received by the TUs acquired in 2010. We believe that the increase provides a good indication that these markets are recognizing the value of the Company's motion solutions.

In 2010, the Company acquired Agile Systems Inc., now known as Allied Motion Canada (AM Canada). AM Canada designs and develops advanced motion control technology including integrated power electronics, digital controls and network communications for motor control and power conversion. AM Canada, based in Waterloo, Ontario, Canada, part of the Allied Motion Controls TU, has established customers in a wide range of industries.

At the end of 2010, the Company acquired the shares of Östergrens-Elmotor AB (Östergrens). Östergrens has expertise in designing drive electronics, software and mechanical processes. The products are manufactured at Östergrens' facilities in Sweden and China. Östergrens' current products integrate their electronics expertise with other motion control products such as motors and gears. Östergrens' products are sold to OEM customers throughout Europe and are used in a wide variety of industrial, commercial and medical applications, including emerging Green Technology alternative energy and electric vehicle applications, leading-edge medical instrumentation and test equipment applications and other industrial and commercial applications in which Östergrens' products improve the efficiency/performance of the OEM's products. In addition, Östergrens' China facility further facilitates low cost region sourcing capabilities and provides the Company with a base to expand operations in the Asian market.

The acquisitions made in 2010 were made primarily with cash on hand, and management believes these acquisitions will expand the Company's customer base, increase the various markets into which we sell, augment the Company's engineering knowledge, and provide all of our customers more integrated motion system solutions.

The Company has a strong balance sheet and has improved liquidity when compared with the previous year. Two acquisitions were made within the last year, using approximately \$7.7 million, and the Company's cash position, net of outstanding debt, decreased by approximately \$3.5 million over the last twelve months. Excluding cash used for acquisitions, the Company's cash position, net of outstanding debt, increased by \$4.2 million over the last twelve months. The Company continues its position of maintaining resources in electro-magnetic, mechanical and electronic design capabilities as its primary goal is to provide products that raise the bar with customers and provide important differentiating solutions against competition. Management will continue to make investments in the markets believed to provide the most opportunity for continued growth and profitability of the Company.

One of the Company's major challenges is to maintain and improve price competitiveness. The Company's customers are continually being challenged by their markets and competitors to be price competitive and they are requiring their suppliers to deliver the highest quality product at the lowest price possible. Currently, the Company is producing some of its motor sub-assemblies and finished products at sub-contract manufacturing facilities in China and Slovakia. With the acquisition of Östergrens, the Company now owns a manufacturing facility in China as well. The Company has increased efforts to identify opportunities where production in low cost regions can improve profitability while delivering the same high quality products.

The Company's products contain certain metals, and at certain times the Company experiences significant fluctuations in the costs of these metals, particularly copper, steel and zinc, which are all key materials in our products. The Company has reacted by aggressively sourcing materials at lower costs from Asian markets and by passing on surcharges and price increases to our customers.

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The Company continues to pursue aggressive motor and drive development plans for new products that leverage the combined technology base of the Allied Motion companies. The Company focuses on new product designs that design-out cost, provide higher level, value-added performance solutions and that meet the needs of its served markets. Over the last few years, the Company announced several new motor designs targeted at various markets. It normally takes twelve months to get new products designed into new customer applications.

The Company continues its focus on a ONE TEAM sales force to more effectively leverage resources utilizing a company wide sales organization. With the ONE TEAM sales force selling all the Company's products, management's expectation is that this capability provides opportunities to increase sales from existing customers and secure new business opportunities.

Management believes the strategy we have developed for the Company will accomplish our long term goals of increasing shareholder value through the continued strengthening of the foundation necessary to achieve growth in sales and profitability.

**Operating Results**

*Quarter Ended March 31, 2011 compared to Quarter Ended March 31, 2010*

**NET INCOME** The Company reported net income of \$1,213,000, or \$0.14 per diluted share for the first quarter of 2011, compared to \$734,000, or \$0.09 per diluted share for the same quarter last year. This quarter's results include the results from Allied Motion Canada and Ostergrens Elmotor AB, both acquired in 2010.

**EBITDA AND EBITDA BEFORE NONRECURRING ITEMS** EBITDA was \$2,350,000 for the first quarter of 2011 compared to a \$1,563,000 for the same quarter last year. EBITDA before nonrecurring items was \$1,108,000 for the first quarter last year. EBITDA and EBITDA before nonrecurring items are non-GAAP measurements. EBITDA consists of income before interest expense, provision for income taxes, and depreciation and amortization. EBITDA before nonrecurring items is EBITDA before insurance recoveries and inefficiencies from the relocation of encoder operations. See information included in **Non - GAAP Measures** below for a reconciliation of net income to EBITDA and EBITDA before nonrecurring items.

**REVENUES** Revenues were \$26,724,000 for the quarter ended March 31, 2011 compared to \$17,422,000 for the quarter ended March 31, 2010, a 53% increase. Of this 53% increase, revenues from existing businesses increased 22% and incremental revenues achieved by the companies acquired in 2010 contributed 31% of the increase. The 22% increase in revenues from existing businesses reflects increased sales into all markets, with the industrial and electronics markets accounting for the largest portion of the increase.

Sales to U.S. customers accounted for 50% and 57% of our sales in the first quarter of 2011 and 2010, respectively, with the balance to customers primarily in Europe and Canada. Sales volumes for the quarter ended March 31, 2011 increased by nearly 54%, slightly offset by the strengthening of the dollar against the euro for the same period of last year, which accounted for less than a one percent decrease in the Company's sales.



**ORDER BACKLOG** At March 31, 2011, order backlog was approximately \$38.7 million, which is up 33% from the same time last year and up 2% from the backlog at December 31, 2010.

**GROSS MARGINS** Gross margin as a percentage of revenues was 30% and 25% for the quarters ended March 31, 2011 and 2010, respectively. This 5% improvement in gross margin was due to a 2% improvement in our variable margin, which is due to our continued efforts in selling higher value added products and to our cost reduction efforts, and a 3% improvement resulting from the improvement in the percent that our fixed manufacturing overhead costs are to the increased sales.

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**SELLING EXPENSES** Selling expenses in the first quarter were \$1,462,000 compared to \$941,000 for the first quarter last year. The 55% increase is primarily due to an increase in the Company's sales force as a result of the acquisition of Östergrens, which was completed in the fourth quarter of 2010.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were \$2,966,000 in the quarter ended March 31, 2011 compared to \$2,059,000 in the quarter ended March 31, 2010. The 44% increase is primarily a result of additional general and administrative costs as a result of the acquisitions of AM Canada and Östergrens, which were made in the second and fourth quarters of 2010, respectively, as well as increased compensation expense, which includes incentive bonuses.

**ENGINEERING AND DEVELOPMENT EXPENSES** Engineering and development expenses were \$1,534,000 in the first quarter of 2011 and \$1,013,000 in the same quarter last year. The 51% increase is primarily a result of the increased engineering staff from the acquisitions of AM Canada and Östergrens, which were made in the second and fourth quarters of 2010, respectively.

**AMORTIZATION OF INTANGIBLE ASSETS** Amortization of intangible assets expense was \$180,000 in the quarter ended March 31, 2011 and \$165,000 in the same quarter last year. The 9% increase is the result of the additional intangible amortization from the Östergrens acquisition, partially offset, by certain intangible assets that became fully amortized in 2010.

**TOTAL OPERATING COSTS AND EXPENSES** Selling, General & Administrative and Engineering costs as a percent of sales for the first quarter decreased to 22% this year compared to 23% last year with the decrease due to the increase in sales. However, the total operating costs and expenses for the quarter, excluding fire related insurance recoveries, increased by \$1,964,000 from the same time last year with 70% of the increase due to the incremental costs of the two acquired companies. The balance of the increase is primarily in General and Administrative expenses which is from increased compensation expense, which includes incentive bonuses, as well as incremental costs incurred as a result of the Östergrens acquisition.

**INCOME TAXES** Provision for income taxes was \$571,000 and \$330,000 for the first quarters of 2011 and 2010, respectively. The effective rate used to record income taxes is based on projected results for the fiscal year. The effective income tax rate as a percentage of income before income taxes was 32% and 31% for the quarters ended March 31, 2011 and 2010, respectively. The effective tax rate is lower than the statutory rate primarily due to differences in state and foreign tax rates.

**Non-GAAP Measures**

EBITDA and EBITDA before nonrecurring items are provided for information purposes only and are not measures of financial performance under generally accepted accounting principles.

The Company believes EBITDA is often a useful measure of a Company's operating performance and is a significant basis used by the Company's management to measure the operating performance of the Company's business because EBITDA excludes charges for depreciation, amortization and interest expense that have resulted from our debt financings, as well as our provision for income tax expense. EBITDA is

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frequently used as one of the bases for comparing businesses in the Company's industry.

The Company also believes that EBITDA before nonrecurring items provides helpful information about the operating performance of its business. Non-recurring items are either income or expenses which do not occur regularly as part of the normal activities of the Company. The Company considers these items to be of significance in nature and/or size, and accordingly, has excluded these items from EBITDA before nonrecurring items. EBITDA before nonrecurring items in 2010 excludes insurance recoveries of \$685,000 and \$230,000 of expenses due to inefficiencies from the relocation of the Company's encoder operation.

EBITDA and EBITDA before nonrecurring items does not represent and should not be considered as an alternative to net income, operating income, net cash provided by operating activities or any other measure.

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for determining operating performance or liquidity that is calculated in accordance with generally accepted accounting principles.

The Company's calculation of EBITDA and EBITDA before nonrecurring items for the three months ended March 31, 2011 and 2010 is as follows (in thousands):

	For the three months ended March 31,			
	2011		2010	
Net income	\$	1,213	\$	734
Interest expense		24		3
Provision for income tax		571		330
Depreciation and amortization		542		496
Income before interest expense, provision for income taxes, depreciation and amortization (EBITDA)		2,350		1,563
Insurance recoveries				(685)
Inefficiencies from relocation of encoder operations				230
Income before interest expense, provision for income taxes, depreciation and amortization, and non-recurring items (EBITDA before nonrecurring items)	\$	2,350	\$	1,108

Liquidity and Capital Resources

The Company's liquidity position as measured by cash and cash equivalents decreased \$1,236,000 to a balance of \$2,317,000 at March 31, 2011. This decrease compares to an increase of \$841,000 for the same period last year. During the first quarter of 2011, operations used \$653,000 in cash compared to cash provided of \$1,622,000 for the quarter ended March 31, 2010. Cash used in operations this year as compared to cash provided last year is due to increased inventories to support increased sales volumes, and is also due to increases in trade receivables and other current assets and an increase in payments made pursuant to company incentive plans, partially offset by higher net income in 2011 when compared to the same quarter of last year.

Net cash used in investing activities was \$760,000 and \$304,000 for the first quarter of 2011 and 2010, respectively. The increase includes a payment of \$332,000, which is a portion of the contingent consideration for the Ostergrens acquisition, and an increase of \$124,000 for purchases of property and equipment.

Net cash provided by financing activities was \$95,000 for the quarter ended March 31, 2011 compared to \$198,000 used for the same period last year. The increase in cash provided is primarily due to decreased paydowns of Company debt in 2011. The Company did not pay off any debt in the quarter ended March 31, 2011, whereas the Company paid \$278,000 of debt in the same period of last year.

The average outstanding balance on the Company's line-of-credit was \$820,000. As of March 31, 2011, the amount available to borrow under the lines-of-credit was approximately \$7.4 million.



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The Company amended its Credit Agreement in 2010. The amended Credit Agreement extends the agreement to October 26, 2012. The amended Credit Agreement provides revolving credit up to \$4 million and 3 million. Borrowings under the revolver incur interest of LIBOR plus 2.0%. Overnight borrowings incur interest at PRIME plus 1.00%. The unused portion of the revolver is charged a commitment fee of .375% per annum. The amended Credit Agreement contains certain financial covenants related to maximum leverage, minimum fixed charge coverage and minimum tangible net worth of the Company. The Company's working capital, capital expenditure and debt service requirements are expected to be funded from cash provided by operations and amounts available under the Company's credit facilities.

The Company has bank overdraft facilities with foreign banks in Europe. The facilities had no outstanding balance as of March 31, 2011. The amount available under the overdraft facilities was approximately \$750,000.

Critical Accounting Policies

The Company has prepared its financial statements in conformity with accounting principles generally accepted in the United States, and these statements necessarily include some amounts that are based on informed judgments and estimates of management. The Company's significant accounting policies are discussed in Note 1 in the Annual Report on Form 10-K for the year ended December 31, 2010. The policies are reviewed on a regular basis. The Company's critical accounting policies are subject to judgments and uncertainties which affect the application of such policies. The Company uses historical experience and all available information to make these judgments and estimates. As discussed below the Company's financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. The Company's critical accounting policies include:

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance is based on historical experience and judgments based on current economic and customer specific factors. Significant judgments are made by management in connection with establishing the Company's customers' ability to pay at the time of shipment. Despite this assessment, from time to time, the Company's customers are unable to meet their payment obligations. The Company continues to monitor customers' credit worthiness, and use judgment in establishing the estimated amounts of customer receivables which may not be collected. A significant change in the liquidity or financial position of the Company's customers could have a material adverse impact on the collectibility of accounts receivable and future operating results.

Inventory is valued at the lower of cost or market. The Company monitors and forecasts expected inventory needs based on sales forecasts. Inventory is written down or written off when it becomes obsolete or when it is deemed excess. These determinations involve the exercise of significant judgment by management. If actual market conditions are significantly different from those projected by management, the recorded reserve may be adjusted, and such adjustments may have a significant impact on the Company's results of operations. Demand for the Company's products can fluctuate significantly, and in the past the Company has recorded substantial charges for inventory obsolescence.

The Company records deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts recorded in the consolidated financial statements, and for operating loss and tax credit carryforwards. Realization of the recorded deferred tax assets is dependent upon the Company generating sufficient taxable income in the appropriate tax jurisdiction in future years to obtain benefit from the reversal of net deductible temporary differences and from tax credit and operating loss carryforwards. A valuation allowance is provided to the extent that management deems it more likely than not that the net deferred tax assets will not be realized. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income are changed.



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The Company provides pension and postretirement benefits for certain domestic retirees and records the cost of the obligations based on estimates. The net periodic costs are recognized as employees render the services necessary to earn the benefits. Several assumptions are used to calculate the expense and liability related to the plans including the discount rate, the expected rate of return on plan assets, the future rate of compensation increases and health care cost increases. The discount rate is selected based on a bond pricing model that relates to the projected future cash flows of benefit obligations. Actuarial assumptions used are based on demographic factors such as retirement and mortality. Actual results could vary materially from the Company's actuarial assumptions, which may have an impact on the amount of reported expense or liability for pension or postretirement benefits.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact the financial position, results of operations or cash flows of the Company due to adverse changes in financial and commodity market prices and rates. The Company is exposed to market risk from changes in foreign currency exchange rates as measured against the United States dollar. These exposures are directly related to its normal operating and funding activities.

**Foreign Currency Risk**

The Company has international subsidiaries whose sales are denominated in currencies other than the U.S. dollar, thereby creating exposures to changes in exchange rates. The changes in these exchange rates against the U.S. dollar may positively or negatively affect the Company's sales, gross margins, net income and retained earnings. A 10% change in these foreign currencies vs. the U.S. dollar could affect the Company's pretax earnings for the remainder of the year by approximately \$200,000. The Company does not believe that reasonably possible near-term changes in exchange rates will result in a material effect on future results or cash flows of the Company.

**Item 4. Controls and Procedures**

The Company's controls and procedures include those designed to ensure that material information is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Under the supervision and with the participation of management, the Company's chief executive officer and chief financial officer evaluated the effectiveness of the Company's disclosure controls and procedures designed to ensure that information is recorded, processed, summarized and reported in a timely manner as required by Exchange Act reports such as this Form 10-Q and concluded that as of the end of the Company's most recent fiscal quarter they are effective.

There have not been any changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2011 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**



**Item 5. Other Information**

The Company held its annual stockholders meeting on May 12, 2011. At the annual meeting, the stockholders of the Company (i) elected the seven director nominees and (ii) ratified the appointment of Ehrhardt Keefe Steiner Hotman PC ( EKS&H ) as the Company's independent registered public accounting firm for the 2011 fiscal year.

The results of the voting for the seven director nominees were as follows:

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Nominee	For	Against	Broker Non-votes
D.D. Hock	5,011,208	50,812	2,528,145
Gerald J. Laber	5,011,704	50,316	2,528,145
G.J. Pilmanis	4,586,787	475,233	2,528,145
M.M. Robert	5,012,902	49,118	2,528,145
S.R. (Rollie) Heath, Jr.	4,587,881	474,139	2,528,145
R.D. Smith	4,544,840	517,180	2,528,145
R.S. Warzala	4,984,233	77,787	2,528,145

The results of the voting for the ratification of EKS&H as the Company's independent registered public accounting firm for the 2011 fiscal year were as follows:

For	Against	Abstentions
7,545,380	10,326	34,459

**Item 6. Exhibits**

(a) Exhibits

10.1 Fourth Amendment to Credit Agreement dated as of March 28, 2011, among Allied Motion Technologies Inc., Allied Motion Technologies B.V., JPMorgan Chase Bank, N.A. and J.P. Morgan Europe Limited.

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: May 16, 2011

ALLIED MOTION TECHNOLOGIES INC.

By: /s/ Richard D. Smith

*Executive Chairman of the Board and Chief Financial Officer*

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p; 199,610

August, 2015

4.40 3.15 203,940

July, 2015

5.00 3.80 388,950

June, 2015

5.50 4.90 246,090

May, 2015

5.90 5.10 668,680

**NYSE MKT<sup>(1)</sup> "PLG"**

<b>Period</b>	<b>High (US\$)</b>	<b>Low (US\$)</b>	<b>Volume</b>
May 1 to 17, 2016	3.71	2.77	4,773,685
April, 2016	3.91	2.14	10,793,300
March, 2016	4.04	1.86	9,411,312
February, 2016	2.19	1.01	15,083,013
January, 2016	1.51	0.96	1,462,689
December, 2015	2.26	1.25	1,624,310
November, 2015	2.65	2.03	738,392
October, 2015	3.40	2.26	1,518,496
September, 2015	2.90	2.17	351,125
August, 2015	3.39	2.40	493,816
July, 2015	4.40	2.97	574,890
June, 2015	4.51	3.90	371,824

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May, 2015	4.87	4.20	373,501
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(1) The price and volume have been adjusted to reflect the Share Consolidation.

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### CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations under the Tax Act and the regulations thereunder (the "**Regulations**") generally applicable to a holder who acquires Offered Shares as beneficial owner pursuant to this Prospectus and who, at all relevant times, for the purposes of the Tax Act, deals at arm's length with the Company and the Underwriters, is not affiliated with the Company or the Underwriters, and will acquire and hold such Offered Shares as capital property (each, a "**Holder**"), all within the meaning of the Tax Act. Offered Shares will generally be considered to be capital property to a Holder unless the Holder holds or uses the Offered Shares or is deemed to hold or use the Offered Shares in the course of carrying on a business of trading or dealing in securities or has acquired them or deemed to have acquired them in a transaction or transactions considered to be an adventure in the nature of trade.

This summary does not apply to a Holder (a) that is a "financial institution" for purposes of the mark-to-market rules contained in the Tax Act; (b) an interest in which is or would constitute a "tax shelter investment" as defined in the Tax Act; (c) that is a "specified financial institution" as defined in the Tax Act; (d) that is a corporation resident in Canada (for the purpose of the Tax Act) that is, or becomes as part of a transaction or event or series of transactions or events that includes the acquisition of the Offered Shares, controlled by a non-resident corporation for the purposes of the foreign affiliate dumping rules in Section 212.3 of the Tax Act; (e) that reports its "Canadian tax results" in a currency other than Canadian currency, all as defined in the Tax Act; (f) that is exempt from tax under the Tax Act; or (g) that has entered into, or will enter into, a "synthetic disposition arrangement" or a "derivative forward agreement" with respect to the Offered Shares, as those terms are defined in the Tax Act. Such Holders should consult their own tax advisors with respect to an investment in Offered Shares.

This summary does not address the deductibility of interest by a Holder who has borrowed money or otherwise incurred debt in connection with the acquisition of Offered Shares.

This summary is based upon the current provisions of the Tax Act and the Regulations in force as of the date hereof, specific proposals to amend the Tax Act and the Regulations (the "**Tax Proposals**") which have been announced by or on behalf the Minister of Finance (Canada) prior to the date hereof, the current provisions of the *Canada-United States Income Tax Convention* (1980) (the "**Canada-U.S. Tax Convention**") and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**"). This summary assumes that the Tax Proposals will be enacted in the form proposed and does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations discussed herein. No assurances can be given that the Tax Proposals will be enacted as proposed or at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Offered Shares. The following description of income tax matters is of a general nature only and is not intended to be, nor should it be construed to be, legal or income tax advice to any particular Holder. Holders should consult their own income tax advisors with respect to the tax consequences applicable to them based on their own particular circumstances.**

#### Amounts Determined in Canadian Dollars

For purposes of the Tax Act, all amounts relating to the Offered Shares must be expressed in Canadian dollars, including cost, adjusted cost base, proceeds of disposition and dividends, and amounts denominated in U.S. dollars must be converted to Canadian dollars using the rate of exchange published by the Bank of Canada at noon on the particular date the particular amount arose or such other rate of exchange as may be accepted by the CRA. Holders may therefore realize additional income or gain by virtue of changes in foreign exchange rates, and are advised to consult with their own tax advisors in this regard. Currency tax issues are not discussed further in this summary.

## Residents of Canada

The following portion of this summary is applicable to a Holder who, for the purposes of the Tax Act, is resident or deemed to be resident in Canada at all relevant times (each, a "**Resident Holder**"). Certain Resident Holders whose Offered Shares might not otherwise qualify as capital property may be entitled to make an irrevocable election pursuant to subsection 39(4) of the Tax Act to have the Offered Shares, and every other "Canadian security" (as defined by the Tax Act) owned by such Resident Holder in the taxation year of the election and in all subsequent taxation years, deemed to be capital property. Resident Holders should consult their own tax advisors for advice as to whether an election under subsection 39(4) of the Tax Act is available or advisable in their particular circumstances.

### *Taxation of Dividends Received by Resident Holders*

In the case of a Resident Holder who is an individual (including certain trusts), dividends (including deemed dividends) received on the Offered Shares will be included in the Resident Holder's income and be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received by an individual from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit for "eligible dividends" properly designated as such by the Company. Taxable dividends received by such Resident Holder may give rise to minimum tax under the Tax Act.

In the case of a Resident Holder that is a corporation, such dividends (including deemed dividends) received on the Offered Shares will be included in the Resident Holder's income and will normally be deductible in computing such Resident Holder's taxable income. In certain circumstances, section 55(2) of the Tax Act (as proposed to be amended by Tax Proposals released on April 18, 2016) will treat a taxable dividend received by a Resident Holder that is in a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

A Resident Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 10<sup>2</sup>/<sub>3</sub>% for taxation years ending after 2015 (subject to pro-rating for taxation years that end after 2015 and begin before 2016) on its "aggregate investment income" (as defined in the Tax Act) for the year, which is defined to include an amount in respect of dividends.

A Resident Holder that is a "private corporation" or "subject corporation" (as such terms are defined in the Tax Act) may be liable to pay a 38<sup>1</sup>/<sub>3</sub>% for taxation years ending after 2015 (subject to pro-rating for taxation years that end after 2015 and begin before 2016) refundable tax under Part IV of the Tax Act on dividends received or deemed to be received on the Offered Shares to the extent that such dividends are deductible in computing the Resident Holder's taxable income for the year.

### *Disposition of Offered Shares*

A Resident Holder who disposes of, or is deemed to have disposed of, an Offered Share (other than to the Company, unless purchased by the Company in the open market in the manner in which shares are normally purchased by any member of the public in the open market) will realize a capital gain (or incur a capital loss) equal to the amount by which the proceeds of disposition in respect of the Offered Share exceed (or are exceeded by) the aggregate of the adjusted cost base to the Resident Holder of such Offered Share immediately before the disposition or deemed disposition and any reasonable expenses incurred for the purpose of making the disposition. The adjusted cost base to a Resident Holder of an Offered Share will be determined by averaging the cost of that Offered Share with the adjusted cost base (determined immediately before the acquisition of the Offered Share) of all other Common Shares held as capital property at that time by the Resident Holder. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading "Taxation of Capital Gains and Losses".

### *Taxation of Capital Gains and Losses*

Generally, one-half of any capital gain (a "**taxable capital gain**") realized by a Resident Holder must be included in the Resident Holder's income for the taxation year in which the disposition occurs. Subject to and in accordance with the provisions of the Tax Act, one-half of any capital loss incurred by a Resident Holder

(an "allowable capital loss") must generally be deducted from taxable capital gains realized by the Resident Holder in the taxation year in which the disposition occurs. Allowable capital losses in excess of taxable capital gains for the taxation year of disposition generally may be carried back and deducted in the three preceding taxation years or carried forward and deducted in any subsequent year against taxable capital gains realized in such years, in the circumstances and to the extent provided in the Tax Act.

A capital loss realized on the disposition of an Offered Share by a Resident Holder that is a corporation may in certain circumstances be reduced by the amount of dividends which have been previously received or deemed to have been received by the Resident Holder on the Offered Share. Similar rules may apply where a corporation is, directly or indirectly through a trust or partnership, a member of a partnership or a beneficiary of a trust that owns Offered Shares. A Resident Holder to which these rules may be relevant is urged to consult its own tax advisor.

Capital gains realized by an individual (including certain trusts) may result in the individual paying minimum tax under the Tax Act.

A Resident Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 10<sup>2</sup>/<sub>3</sub>% for taxation years ending after 2015 (subject to pro-rating for taxation years that end after 2015 and begin before 2016) on its "aggregate investment income" (as defined in the Tax Act) for the year, which is defined to include an amount in respect of taxable capital gains.

### **Non-Residents of Canada**

The following portion of this summary is generally applicable to a Holder who, for purposes of the Tax Act and at all relevant times, is neither resident nor deemed to be resident in Canada and does not use or hold, and will not be deemed to use or hold, Offered Shares in a business carried on in Canada (each, a "**Non-Resident Holder**"). The term "**US Holder**," for the purposes of this summary, means a Non-Resident Holder who, for purposes of the Canada-U.S. Tax Convention, is at all relevant times a resident of the United States and is a "qualifying person" within the meaning of the Canada-U.S. Tax Convention. In some circumstances, persons deriving amounts through fiscally transparent entities (including limited liability companies) may be entitled to benefits under the Canada-U.S. Tax Convention. US Holders are urged to consult their own tax advisors to determine their entitlement to benefits under the Canada-U.S. Tax Convention based on their particular circumstances.

Special considerations, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer that carries on an insurance business in Canada and elsewhere or an authorized foreign bank (as defined in the Tax Act). Such Non-Resident Holders should consult their own advisors.

### *Taxation of Dividends*

Subject to an applicable international tax treaty or convention, dividends paid or credited, or deemed to be paid or credited, to a Non-Resident Holder on the Offered Shares will be subject to Canadian withholding tax under the Tax Act at the rate of 25% of the gross amount of the dividend. Such rate is generally reduced under the Canada-U.S. Tax Convention to 15% if the beneficial owner of such dividend is a U.S. Holder. The rate of withholding tax is further reduced to 5% if the beneficial owner of such dividend is a U.S. Holder that is a company that owns, directly or indirectly, at least 10% of the voting stock of the Company. In addition, under the Canada-U.S. Tax Convention, dividends may be exempt from such Canadian withholding tax if paid to certain U.S. Holders that are qualifying religious, scientific, literary, educational or charitable tax-exempt organizations or qualifying trusts, companies, organizations or arrangements operated exclusively to administer or provide pension, retirement or employee benefits or benefits for the self-employed under one or more funds or plans established to provide pension or retirement benefits or other employee benefits that are exempt from tax in the United States and that have complied with specific administrative procedures.

### *Disposition of Offered Shares*

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition of Offered Shares, unless the Offered Shares constitute "taxable



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Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of the disposition and are not "treaty-protected property" (as defined in the Tax Act) of the Non-Resident Holder at the time of the disposition.

Generally, as long as the Offered Shares are then listed on a designated stock exchange (which currently includes the TSX and the NYSE MKT), the Offered Shares will not constitute taxable Canadian property of a Non-Resident Holder, unless at any time during the 60-month period immediately preceding the disposition the following two conditions are met concurrently: (a) the Non-Resident Holder, persons with which the Non-Resident Holder does not deal at arm's length, partnerships whose members include, either directly or indirectly through one or more partnerships, the Non-Resident Holder or persons which do not deal at arm's length with the Non-Resident Holder, or any combination of them, owned 25% or more of the issued shares of any class or series of shares of the capital stock of the Company, and (b) more than 50% of the fair market value of the Offered Shares was derived directly or indirectly, from one or any combination of real or immovable property situated in Canada, "Canadian resource properties", "timber resource properties" (each as defined in the Tax Act), and options in respect of or interests in, or for civil law rights in, any such property (whether or not such property exists).

In the case of a US Holder, the Offered Shares of such US Holder will generally constitute "treaty-protected property" for purposes of the Tax Act unless the value of the Offered Shares is derived principally from real property situated in Canada. For this purpose "real property" has the meaning that term has under the laws of Canada and includes any option or similar right in respect thereof and usufruct of real property, rights to explore for or to exploit mineral deposits, sources and other natural resources and rights to amounts computed by reference to the amount or value of production from such resources.

If Offered Shares are taxable Canadian property of a Non-Resident Holder and are not treaty-protected property of the Non-Resident Holder at the time of their disposition, the consequences above under "Residents of Canada Taxation of Capital Gains and Losses" will generally apply.

**Non-Resident Holders whose Offered Shares are taxable Canadian property should consult their own advisors.**

### CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of certain material U.S. federal income tax considerations applicable to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of Offered Shares acquired pursuant to this Prospectus.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax considerations that may apply to a U.S. Holder arising from or relating to the acquisition, ownership, and disposition of Offered Shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences to such U.S. Holder, including specific tax consequences to a U.S. Holder under an applicable tax treaty. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. This summary does not address the U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Offered Shares. In addition, except as specifically set forth below, this summary does not discuss applicable income tax reporting requirements. Each prospective U.S. Holder should consult its own tax advisors regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences relating to the acquisition, ownership and disposition of Offered Shares.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the "IRS") has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Offered Shares. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, or contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the conclusions described in this summary.

**NOTHING CONTAINED IN THIS SUMMARY CONCERNING ANY U.S. FEDERAL TAX ISSUE IS INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY A U.S. HOLDER, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES UNDER THE CODE (AS DEFINED BELOW). THIS SUMMARY WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED BY THIS DOCUMENT. EACH U.S. HOLDER SHOULD SEEK U.S. FEDERAL TAX ADVICE, BASED ON SUCH U.S. HOLDER'S PARTICULAR CIRCUMSTANCES, FROM AN INDEPENDENT TAX ADVISOR.**

### Scope of this Summary

#### *Authorities*

This summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury Regulations (whether final, temporary, or proposed), published rulings of the IRS, published administrative positions of the IRS, the Canada-U.S. Tax Convention, and U.S. court decisions that are available as of the date of this document. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis, which could affect the U.S. federal income tax considerations described in this summary. Except as provided herein, this summary does not discuss the potential effects of any proposed legislation.

#### *U.S. Holders*

For purposes of this summary, the term "U.S. Holder" means a beneficial owner of Offered Shares acquired pursuant to the Offering that is for U.S. federal income tax purposes:

a citizen or individual resident of the United States;

a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;

an estate whose income is subject to U.S. federal income taxation regardless of its source; or

a trust that (1) is subject to the primary supervision of a court within the U.S. and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

#### *Non-U.S. Holders*

For purposes of this summary, a "non-U.S. Holder" is a beneficial owner of Offered Shares that is not a U.S. Holder or a partnership. This summary does not address the U.S. federal income tax consequences to non-U.S. Holders arising from or relating to the acquisition, ownership, and disposition of Offered Shares. Accordingly, a non-U.S. Holder should consult its own tax advisors regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences (including the potential application of and operation of any income tax treaties) relating to the acquisition, ownership, and disposition of Offered Shares.

#### *U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed*

This summary does not address the U.S. federal income tax considerations applicable to U.S. Holders that are subject to special provisions under the Code, including, but not limited to U.S. Holders that: (a) are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) are financial institutions, underwriters, insurance companies, real estate investment trusts, or regulated investment companies; (c) are broker-dealers, dealers, or traders in securities or currencies that elect to apply a mark-to-market accounting method; (d) have a "functional currency" other than the U.S. dollar; (e) own Offered Shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (f) acquired Offered Shares in connection with the exercise of employee stock options or otherwise as compensation for services; (g) hold Offered Shares other than as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment purposes);

(h) are subject to the alternative minimum tax; or (i) own or have owned or will own (directly, indirectly, or by attribution) 10% or more of the total combined voting power of the outstanding shares of the Company. This summary also does not address the U.S. federal income tax considerations applicable to U.S. Holders who are: (a) U.S. expatriates or former long-term residents of the U.S.; (b) persons that have been, are, or will be a resident or deemed to be a resident in Canada for purposes of the Tax Act; (c) persons that use or hold, will use or hold, or that are or will be deemed to use or hold Offered Shares in connection with carrying on a business in Canada; (d) persons whose Offered Shares constitute "taxable Canadian property" under the Tax Act; or (e) persons that have a permanent establishment in Canada for the purposes of the Canada-U.S. Tax Convention. U.S. Holders that are subject to special provisions under the Code, including, but not limited to, U.S. Holders described immediately above, should consult their own tax advisors regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences relating to the acquisition, ownership and disposition of Offered Shares.

In particular, it is noted that the Company may be or may become a "controlled foreign corporation" for U.S. federal income tax purposes, and therefore, if a U.S. Holder is a U.S. shareholder owning 10% or more of the Company's voting stock directly, indirectly and/or under the applicable attribution rules, the U.S. federal income tax consequences to such U.S. Holder of owning Offered Shares may be significantly different than those described below in several respects. If a U.S. Holder owns 10% or more of the Company's voting stock directly, indirectly and/or under the applicable attribution rules, such holder should consult its own tax advisors regarding the U.S. federal income tax rules applicable to an investment in a controlled foreign corporation.

If an entity or arrangement that is classified as a partnership (or other "pass-through" entity) for U.S. federal income tax purposes holds Offered Shares, the U.S. federal income tax consequences to such entity and the partners (or other owners) of such entity generally will depend on the activities of the entity and the status of such partners (or owners). This summary does not address the tax consequences to any such entity or owner. Partners (or other owners) of entities or arrangements that are classified as partnerships or as "pass-through" entities for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal income tax consequences arising from and relating to the acquisition, ownership, and disposition of Offered Shares.

### **Passive Foreign Investment Company Rules**

#### *PFIC Status of the Company*

If the Company were to constitute a "passive foreign investment company" under the meaning of Section 1297 of the Code (a "**PFIC**") for any year during a U.S. Holder's holding period, then certain potentially adverse rules will affect the U.S. federal income tax consequences to a U.S. Holder resulting from the acquisition, ownership and disposition of Offered Shares. The Company believes that it was classified as a PFIC during the tax year ended August 31, 2015, and based on current business plans and financial expectations, the Company expects that it will be a PFIC for the current tax year and may be a PFIC in future tax years. The determination of whether any corporation was, or will be, a PFIC for a tax year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether any corporation will be a PFIC for any tax year depends on the assets and income of such corporation over the course of each such tax year and, as a result, cannot be predicted with certainty as of the date of this document. Accordingly, there can be no assurance that the IRS will not challenge any determination made by the Company (or any subsidiary of the Company) concerning its PFIC status. Each U.S. Holder should consult its own tax advisors regarding the PFIC status of the Company and any subsidiary of the Company.

In any year in which the Company is classified as a PFIC, a U.S. Holder will be required to file an annual report with the IRS containing such information as Treasury Regulations and/or other IRS guidance may require. In addition to penalties, a failure to satisfy such reporting requirements may result in an extension of the time period during which the IRS can assess a tax. U.S. Holders should consult their own tax advisors regarding the requirements of filing such information returns under these rules, including the requirement to file an IRS Form 8621.

The Company generally will be a PFIC if, for a tax year, (a) 75% or more of the gross income of the Company is passive income (the "**income test**") or (b) 50% or more of the value of the Company's assets either

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produce passive income or are held for the production of passive income, based on the quarterly average of the fair market value of such assets (the "**asset test**"). "Gross income" generally includes all sales revenues less the cost of goods sold, plus income from investments and from incidental or outside operations or sources, and "passive income" generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

Active business gains arising from the sale of commodities generally are excluded from passive income if substantially all (85% or more) of a foreign corporation's commodities are stock in trade or inventory, depreciable property used in a trade or business, or supplies regularly used or consumed in the ordinary course of its trade or business, and certain other requirements are satisfied.

For purposes of the PFIC income test and asset test described above, if the Company owns, directly or indirectly, 25% or more of the total value of the outstanding shares of another corporation, the Company will be treated as if it (a) held a proportionate share of the assets of such other corporation and (b) received directly a proportionate share of the income of such other corporation. In addition, for purposes of the PFIC income test and asset test described above, and assuming certain other requirements are met, "passive income" does not include certain interest, dividends, rents, or royalties that are received or accrued by the Company from certain "related persons" (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to the income of such related person that is not passive income.

Under certain attribution rules, if the Company is a PFIC, U.S. Holders will generally be deemed to own their proportionate share of the Company's direct or indirect equity interest in any company that is also a PFIC (a "**Subsidiary PFIC**"), and will be subject to U.S. federal income tax on their proportionate share of (a) any "excess distributions," as described below, on the stock of a Subsidiary PFIC and (b) a disposition or deemed disposition of the stock of a Subsidiary PFIC by the Company or another Subsidiary PFIC, both as if such U.S. Holders directly held the shares of such Subsidiary PFIC. In addition, U.S. Holders may be subject to U.S. federal income tax on any indirect gain realized on the stock of a Subsidiary PFIC on the sale or disposition of Offered Shares. Accordingly, U.S. Holders should be aware that they could be subject to tax even if no distributions are received and no redemptions or other dispositions of Offered Shares are made.

### *Default PFIC Rules Under Section 1291 of the Code*

If the Company is a PFIC for any tax year during which a U.S. Holder owns Offered Shares, the U.S. federal income tax consequences to such U.S. Holder of the acquisition, ownership, and disposition of Offered Shares will depend on whether and when such U.S. Holder makes an election to treat the Company and each Subsidiary PFIC, if any, as a "qualified electing fund" or "QEF" under Section 1295 of the Code (a "**QEF Election**") or makes a mark-to-market election under Section 1296 of the Code (a "**Mark-to-Market Election**"). A U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a "Non-Electing U.S. Holder".

A Non-Electing U.S. Holder will be subject to the rules of Section 1291 of the Code (described below) with respect to (a) any gain recognized on the sale or other taxable disposition of Offered Shares and (b) any "excess distribution" received on the Offered Shares. A distribution generally will be an "excess distribution" to the extent that such distribution (together with all other distributions received in the current tax year) exceeds 125% of the average distributions received by the U.S. Holder during the three preceding tax years (or during a U.S. Holder's holding period for the Offered Shares, if shorter).

Under Section 1291 of the Code, any gain recognized on the sale or other taxable disposition of Offered Shares (including an indirect disposition of the stock of any Subsidiary PFIC), and any "excess distribution" received on Offered Shares or with respect to the stock of a Subsidiary PFIC, must be ratably allocated to each day in a Non-Electing U.S. Holder's holding period for the respective Offered Shares. The amount of any such gain or excess distribution allocated to the tax year of disposition or distribution of the excess distribution and to years before the entity became a PFIC, if any, would be taxed as ordinary income. The amounts allocated to any other tax year would be subject to U.S. federal income tax at the highest tax rate applicable to ordinary income in each such year, and an interest charge would be imposed on the tax liability for each such year, calculated as if such tax liability had been due in each such year. A Non-Electing U.S. Holder that is not a corporation must treat any such interest paid as "personal interest," which is not deductible.

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If the Company is a PFIC for any tax year during which a Non-Electing U.S. Holder holds Offered Shares, the Company will continue to be treated as a PFIC with respect to such Non-Electing U.S. Holder, regardless of whether the Company ceases to be a PFIC in one or more subsequent tax years. A Non-Electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above), but not loss, as if such Offered Shares were sold on the last day of the last tax year for which the Company was a PFIC.

### *QEF Election*

A U.S. Holder that makes a timely and effective QEF Election for the first tax year in which the holding period of its Offered Shares begins generally will not be subject to the rules of Section 1291 of the Code discussed above with respect to its Offered Shares. A U.S. Holder that makes a timely and effective QEF Election will be subject to U.S. federal income tax on such U.S. Holder's pro-rata share of (a) the net capital gain of the Company, which will be taxed as long-term capital gain to such U.S. Holder, and (b) the ordinary earnings of the Company, which will be taxed as ordinary income to such U.S. Holder. Generally, "net capital gain" is the excess of (a) net long-term capital gain over (b) net short-term capital loss, and "ordinary earnings" are the excess of (a) "earnings and profits" over (b) net capital gain. A U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such amounts for each tax year in which the Company is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Holder by the Company. However, for any tax year in which the Company is a PFIC and has no net income or gain, U.S. Holders that have made a QEF Election would not have any income inclusions as a result of the QEF Election. If a U.S. Holder that made a QEF Election has an income inclusion, such a U.S. Holder may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. If such U.S. Holder is not a corporation, any such interest paid will be treated as "personal interest", which is not deductible.

A U.S. Holder that makes a timely and effective QEF Election with respect to the Company generally (a) may receive a tax-free distribution from the Company to the extent that such distribution represents "earnings and profits" of the Company that were previously included in income by the U.S. Holder because of such QEF Election and (b) will adjust such U.S. Holder's tax basis in the Offered Shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF Election. In addition, a U.S. Holder that makes a QEF Election generally will recognize capital gain or loss on the sale or other taxable disposition of Offered Shares.

The procedure for making a QEF Election, and the U.S. federal income tax consequences of making a QEF Election, will depend on whether such QEF Election is timely. A QEF Election will be treated as "timely" if such QEF Election is made for the first year in the U.S. Holder's holding period for the Offered Shares in which the Company was a PFIC. A U.S. Holder may make a timely QEF Election by filing the appropriate QEF Election documents at the time such U.S. Holder files a U.S. federal income tax return for such year. If a U.S. Holder does not make a timely and effective QEF Election for the first year in the U.S. Holder's holding period for the Offered Shares, the U.S. Holder may still be able to make a timely and effective QEF Election in a subsequent year if such U.S. Holder meets certain requirements and makes a "purging" election to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if such Offered Shares were sold for their fair market value on the day the QEF Election is effective. If a U.S. Holder owns PFIC stock indirectly through another PFIC, separate QEF Elections must be made for the PFIC in which the U.S. Holder is a direct shareholder and the Subsidiary PFIC for the QEF rules to apply to both PFICs.

A QEF Election will apply to the tax year for which such QEF Election is timely made and to all subsequent tax years, unless such QEF Election is invalidated or terminated or the IRS consents to revocation of such QEF Election. If a U.S. Holder makes a QEF Election and, in a subsequent tax year, the Company ceases to be a PFIC, the QEF Election will remain in effect (although it will not be applicable) during those tax years in which the Company is not a PFIC. Accordingly, if the Company becomes a PFIC in another subsequent tax year, the QEF Election will be effective and the U.S. Holder will be subject to the QEF rules described above during any subsequent tax year in which the Company qualifies as a PFIC.

The Company will use commercially reasonable efforts to make available to U.S. Holders, upon their written request: (a) information as to its status as a PFIC and the PFIC status of any subsidiary in which the

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Company owns more than 50% of such subsidiary's total aggregate voting power, and (b) for each year in which the Company is a PFIC, all information and documentation that a U.S. Holder making a QEF Election with respect to the Company and any such more than 50% owned subsidiary which constitutes a PFIC is required to obtain for U.S. federal income tax purposes. The Company may elect to provide such information on its website ([www.platinumgroupmetals.net](http://www.platinumgroupmetals.net)). Because the Company may hold 50% or less of the aggregate voting power of one or more Subsidiary PFICs at any time, U.S. Holders should be aware that there can be no assurance that the Company will satisfy record keeping requirements that apply to a QEF, or that the Company will supply U.S. Holders with information that such U.S. Holders are required to report under the QEF rules, in the event that a subsidiary of the Company is a PFIC and a U.S. Holder wishes to make a QEF Election with respect to any such Subsidiary PFIC. With respect to Subsidiary PFICs for which the Company does not obtain the required information, U.S. Holders will continue to be subject to the rules discussed above that apply to Non-Electing U.S. Holders with respect to the taxation of gains and excess distributions. Each U.S. Holder should consult its own tax advisors regarding the availability of, and procedure for making, a QEF Election with respect to the Company and any Subsidiary PFIC.

A U.S. Holder makes a QEF Election by attaching a completed IRS Form 8621, including a PFIC Annual Information Statement, to a timely filed U.S. federal income tax return. However, if the Company cannot provide the information required to be included on IRS Form 8621 with regard to the Company or any of its Subsidiary PFICs, U.S. Holders will not be able to make a QEF Election for such entity and will continue to be subject to the rules discussed above that apply to Non-Electing U.S. Holders with respect to the taxation of gains and excess distributions.

### *Mark-to-Market Election*

A U.S. Holder may make a Mark-to-Market Election only if the Offered Shares are marketable stock. The Offered Shares generally will be "marketable stock" if the Offered Shares are regularly traded on (a) a national securities exchange that is registered with the SEC, (b) the national market system established pursuant to Section 11A of the U.S. Exchange Act, or (c) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such foreign exchange has trading volume, listing, financial disclosure, and surveillance requirements, and meets other requirements and the laws of the country in which such foreign exchange is located, together with the rules of such foreign exchange, ensure that such requirements are actually enforced and (ii) the rules of such foreign exchange effectively promote active trading of listed stocks. If such stock is traded on such a qualified exchange or other market, such stock generally will be "regularly traded" for any calendar year during which such stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. The Company believes that its Common Shares were "regularly traded" in the last two calendar quarters of 2015 and the first calendar quarter of 2016 and expects that such Common Shares should be "regularly traded" in the second calendar quarter of 2016. However, there can be no assurance that the Offered Shares will be "regularly traded" in subsequent calendar quarters. U.S. Holders should consult their own tax advisors regarding the marketable stock rules.

A U.S. Holder that makes a Mark-to-Market Election with respect to its Offered Shares generally will not be subject to the rules of Section 1291 of the Code discussed above with respect to such Offered Shares. However, if a U.S. Holder does not make a Mark-to-Market Election beginning in the first tax year of such U.S. Holder's holding period for the Offered Shares or such U.S. Holder has not made a timely and effective QEF Election, the rules of Section 1291 of the Code discussed above will apply to certain dispositions of, and distributions on, the Offered Shares.

A U.S. Holder that makes a Mark-to-Market Election will include in ordinary income, for each tax year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the Offered Shares, as of the close of such tax year, over (b) such U.S. Holder's adjusted tax basis in such Offered Shares. A U.S. Holder that makes a Mark-to-Market Election will be allowed a deduction in an amount equal to the excess, if any, of (a) such U.S. Holder's adjusted tax basis in the Offered Shares, over (b) the fair market value of such Offered Shares (but only to the extent of the net amount of previously included income as a result of the Mark-to-Market Election for prior tax years).

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A U.S. Holder that makes a Mark-to-Market Election generally also will adjust such U.S. Holder's tax basis in the Offered Shares to reflect the amount included in gross income or allowed as a deduction because of such Mark-to-Market Election. In addition, upon a sale or other taxable disposition of Offered Shares, a U.S. Holder that makes a Mark-to-Market Election will recognize ordinary income or ordinary loss (not to exceed the excess, if any, of (a) the amount included in ordinary income because of such Mark-to-Market Election for prior tax years over (b) the amount allowed as a deduction because of such Mark-to-Market Election for prior tax years). Losses that exceed this limitation are subject to the rules generally applicable to losses provided in the Code and Treasury Regulations.

A Mark-to-Market Election applies to the tax year in which such Mark-to-Market Election is made and to each subsequent tax year, unless the Offered Shares cease to be "marketable stock" or the IRS consents to revocation of such election. Each U.S. Holder should consult its own tax advisors regarding the availability of, and procedure for making, a Mark-to-Market Election.

A U.S. Holder makes a Mark-to-Market Election by attaching a completed IRS Form 8621 to a timely filed U.S. federal income tax return. A timely Mark-to-Market Election applies to the tax year in which such Mark-to-Market Election is made and to each subsequent tax year, unless the Offered Shares cease to be "marketable stock" or the IRS consents to revocation of such election. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

Although a U.S. Holder may be eligible to make a Mark-to-Market Election with respect to the Offered Shares, no such election may be made with respect to the stock of any Subsidiary PFIC that a U.S. Holder is treated as owning, because such stock is not marketable. Hence, the Mark-to-Market Election will not be effective to avoid the application of the default rules of Section 1291 of the Code described above with respect to deemed dispositions of Subsidiary PFIC stock or excess distributions from a Subsidiary PFIC.

### *Other PFIC Rules*

Under Section 1291(f) of the Code, the IRS has issued proposed Treasury Regulations that, subject to certain exceptions, would cause a U.S. Holder that had not made a timely QEF Election to recognize gain (but not loss) upon certain transfers of Offered Shares that would otherwise be tax-deferred (e.g., gifts and exchanges pursuant to corporate reorganizations). However, the specific U.S. federal income tax consequences to a U.S. Holder may vary based on the manner in which Offered Shares are transferred.

Certain additional adverse rules may apply with respect to a U.S. Holder if the Company is a PFIC, regardless of whether such U.S. Holder makes a QEF Election. For example, under Section 1298(b)(6) of the Code, a U.S. Holder that uses Offered Shares as security for a loan will, except as may be provided in Treasury Regulations, be treated as having made a taxable disposition of such Offered Shares.

Special rules also apply to the amount of foreign tax credit that a U.S. Holder may claim on a distribution from a PFIC. Subject to such special rules, foreign taxes paid with respect to any distribution in respect of stock in a PFIC are generally eligible for the foreign tax credit. The rules relating to distributions by a PFIC and their eligibility for the foreign tax credit are complicated, and a U.S. Holder should consult its own tax advisors regarding the availability of the foreign tax credit with respect to distributions by a PFIC.

The PFIC rules are complex, and each U.S. Holder should consult its own tax advisors regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Offered Shares.

### **Ownership and Disposition of Offered Shares to the Extent that the PFIC Rules do not Apply**

The following discussion is subject, in its entirety, to the rules described above under the heading "Passive Foreign Investment Company Rules".

### *Distributions on Offered Shares*

A U.S. Holder that receives a distribution, including a constructive distribution, with respect to an Offered Share will be required to include the amount of such distribution in gross income as a dividend (without

reduction for any Canadian income tax withheld from such distribution) to the extent of the current or accumulated "earnings and profits" of the Company, as computed for U.S. federal income tax purposes. A dividend generally will be taxed to a U.S. Holder at ordinary income tax rates if the Company is a PFIC. To the extent that a distribution exceeds the current and accumulated "earnings and profits" of the Company, such distribution will be treated first as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the Offered Shares and thereafter as gain from the sale or exchange of such Offered Shares. (See " Sale or Other Taxable Disposition of Offered Shares" below). However, the Company does not intend to maintain the calculations of its earnings and profits in accordance with U.S. federal income tax principles, and each U.S. Holder therefore should assume that any distribution by the Company with respect to the Offered Shares will constitute ordinary dividend income. Dividends received on Offered Shares will not be eligible for the "dividends received deduction". Subject to applicable limitations and provided the Company is eligible for the benefits of the Canada-U.S. Tax Convention, dividends paid by the Company to non-corporate U.S. Holders, including individuals, generally will be eligible for the preferential tax rates applicable to long-term capital gains for dividends, provided certain holding period and other conditions are satisfied, including that the Company not be classified as a PFIC in the tax year of distribution or in the preceding tax year. The dividend rules are complex, and each U.S. Holder should consult its own tax advisors regarding the application of such rules.

#### *Sale or Other Taxable Disposition of Offered Shares*

Upon the sale or other taxable disposition of Offered Shares, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the U.S. dollar value of cash received plus the fair market value of any property received and such U.S. Holder's tax basis in such Offered Shares sold or otherwise disposed of. A U.S. Holder's tax basis in Offered Shares generally will be such U.S. Holder's U.S. dollar cost for such Offered Shares. Gain or loss recognized on such sale or other disposition generally will be long-term capital gain or loss if, at the time of the sale or other disposition, the Offered Shares have been held for more than one year.

Preferential tax rates currently apply to long-term capital gain of a U.S. Holder that is an individual, estate, or trust. There are no preferential tax rates for long-term capital gain of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

#### **Additional Considerations**

##### *Additional Tax on Passive Income*

Certain U.S. Holders that are individuals, estates or trusts (other than trusts that are exempt from tax) will be subject to a 3.8% tax on all or a portion of their "net investment income", which includes dividends on the Offered Shares, and net gains from the disposition of the Offered Shares. Further, excess distributions treated as dividends, gains treated as excess distributions, and mark-to-market inclusions and deductions are all included in the calculation of net investment income.

Treasury Regulations provide, subject to the election described in the following paragraph, solely for purposes of this additional tax, that distributions of previously taxed income will be treated as dividends and included in net investment income subject to the additional 3.8% tax. Additionally, to determine the amount of any capital gain from the sale or other taxable disposition of Offered Shares that will be subject to the additional tax on net investment income, a U.S. Holder who has made a QEF Election will be required to recalculate its basis in the Offered Shares excluding QEF basis adjustments.

Alternatively, a U.S. Holder may make an election which will be effective with respect to all interests in controlled foreign corporations and QEFs held in that year or acquired in future years. Under this election, a U.S. Holder pays the additional 3.8% tax on QEF income inclusions and on gains calculated after giving effect to related tax basis adjustments. U.S. Holders that are individuals, estates or trusts should consult their own tax advisors regarding the applicability of this tax to any of their income or gains in respect of the Offered Shares and the elections available with respect to such tax.



*Receipt of Foreign Currency*

The amount of any distribution paid to a U.S. Holder in foreign currency, or on the sale, exchange or other taxable disposition of Offered Shares, generally will be equal to the U.S. dollar value of such foreign currency based on the exchange rate applicable on the date of receipt (regardless of whether such foreign currency is converted into U.S. dollars at that time). A U.S. Holder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any U.S. Holder who converts or otherwise disposes of the foreign currency after the date of receipt may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Different rules apply to U.S. Holders who use the accrual method of tax accounting. Each U.S. Holder should consult its own U.S. tax advisors regarding the U.S. federal income tax consequences of receiving, owning, and disposing of foreign currency.

*Foreign Tax Credit*

Subject to the PFIC rules discussed above, a U.S. Holder that pays (whether directly or through withholding) Canadian income tax with respect to dividends paid on the Offered Shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such Canadian income tax. Generally, a credit will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid (whether directly or through withholding) by a U.S. Holder during a year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's "foreign source" taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either "foreign source" or "U.S. source". Generally, dividends paid by a foreign corporation should be treated as foreign source for this purpose. However, and subject to certain exceptions, a portion of the dividends paid by a foreign corporation will be treated as U.S. source income for U.S. foreign tax credit purposes, in proportion to its U.S. source earnings and profits, if U.S. persons own, directly or indirectly, 50 percent or more of the voting power or value of the foreign corporation's common shares. If a portion of any dividends paid with respect to the Offered Shares are treated as U.S. source income under these rules, it may limit the ability of a U.S. Holder to claim a foreign tax credit for Canadian withholding taxes imposed in respect of such dividend. In addition, the amount of a distribution with respect to the Offered Shares that is treated as a "dividend" may be lower for U.S. federal income tax purposes than it is for Canadian federal income tax purposes, resulting in a reduced foreign tax credit allowance to a U.S. Holder. With respect to gains recognized on the sale of stock of a foreign corporation by a U.S. Holder, such gains are generally treated as U.S. source for purposes of the foreign tax credit. These limitations are calculated separately with respect to specific categories of income. The foreign tax credit rules are complex, and each U.S. Holder should consult its own U.S. tax advisors regarding the foreign tax credit rules.

*Backup Withholding and Information Reporting*

Under U.S. federal income tax law and Treasury Regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, U.S. return disclosure obligations (and related penalties) are imposed on individuals who are U.S. Holders that hold certain specified foreign financial assets in excess of certain threshold amounts. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Holders may be subject to these reporting requirements unless their Offered Shares are held in an account at certain financial institutions. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult their own tax advisors regarding the requirements of filing information returns, including the requirement to file an IRS Form 8938.

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Payments made within the U.S. or by a U.S. payor or U.S. middleman, of dividends on, and proceeds arising from the sale or other taxable disposition of, Offered Shares will generally be subject to information reporting and backup withholding tax at the rate of 28% if a U.S. Holder (a) fails to furnish such U.S. Holder's correct U.S. taxpayer identification number (generally on IRS Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, certain exempt persons generally are excluded from these information reporting and backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS in a timely manner.

The discussion of reporting requirements set forth above is not intended to constitute an exhaustive description of all reporting requirements that may apply to a U.S. Holder. A failure to satisfy certain reporting requirements may result in an extension of the time period during which the IRS can assess a tax, and under certain circumstances, such an extension may apply to assessments of amounts unrelated to any unsatisfied reporting requirement. Each U.S. Holder should consult its own tax advisor regarding the information reporting and backup withholding rules.

### DESCRIPTION OF THE SECURITIES BEING DISTRIBUTED

The Company is authorized to issue an unlimited number of Common Shares without par value of which 77,857,028 Common Shares were issued and outstanding as at the date hereof. Shareholders are entitled to receive notice of and attend all meetings of shareholders with each Common Share held entitling the holder to one vote on any resolution to be passed at such shareholder meetings. Shareholders are entitled to dividends if, as and when declared by the board of directors of the Company. Shareholders are entitled upon liquidation, dissolution or winding-up of the Company to receive the remaining assets of the Company available for distribution to shareholders.

### PLAN OF DISTRIBUTION

Under the Underwriting Agreement dated as of May 6, 2016 between the Company and the Underwriters, the Company has agreed to sell, and the Underwriters have severally agreed to purchase, on the Closing Date, 11,000,000 Offered Shares at the Offering Price, payable in cash to the Company, against delivery. The Offered Shares are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days following the date of a final receipt for this Prospectus. The obligations of the Underwriters under the Underwriting Agreement are several and are not joint, nor joint and several, and may be terminated upon the occurrence of certain stated events as set out in the Underwriting Agreement. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares (other than the Over-Allotment Shares) if any of the Offered Shares are purchased under the Underwriting Agreement.

The Offering Price was determined by negotiation between the Company and the Underwriters.

Offered Shares sold by the Underwriters to the public will initially be offered at the Offering Price. After the Underwriters have made a reasonable effort to sell all of the Offered Shares at the Offering Price specified on the cover page, the Underwriters may change the Offering Price and the other selling terms to an amount not greater than the Offering Price set forth on the cover of this Prospectus, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to the Company. Upon execution of the Underwriting Agreement, the Underwriters will be obligated to purchase the Offered Shares offered hereby at the prices and upon the terms stated therein and, as a result, will thereafter bear any risk associated with changing the Offering Price or other selling terms.

It is expected that the Offering will be conducted under the book-based system and the Company will arrange for the instant deposit of the Offered Shares to be registered to CDS. Accordingly, a subscriber who purchases Offered Shares will receive a customer confirmation from the Underwriters or other registered dealer who is a CDS participant (a "**CDS Participant**") from or through whom Offered Shares are purchased.  
No

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beneficial holder of the Offered Shares will receive definitive certificates representing their Offered Shares. CDS will record the CDS Participants who hold Offered Shares on behalf of owners who have purchased or transferred Offered Shares in accordance with the book-based system.

The Offering is being made concurrently in every province of Canada, other than Quebec, and in the United States pursuant to the multi-jurisdictional disclosure system implemented by the SEC and the securities regulatory authorities in Canada. The Offered Shares will be offered in the United States and Canada by the Underwriters either directly or through their respective U.S. or Canadian broker-dealer affiliates or agents, as applicable. Offers and sales of Offered Shares outside of Canada and the United States will be made in accordance with applicable laws in such jurisdictions.

The Common Shares are listed for trading on the TSX and NYSE MKT under the trading symbols "PTM" and "PLG", respectively. The TSX has conditionally approved, and the NYSE MKT has approved, the listing of the Offered Shares. Listing on the TSX will be subject to the Company fulfilling all of the requirements of the TSX on or before August 3, 2016.

The Offering is expected to close on or about May 26, 2016. Under Rule 15c6-1 under the U.S. Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade their Common Shares on the date of this Prospectus or the next two succeeding business days will be required, by virtue of the fact that the Common Shares initially will settle T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Common Shares who wish to trade such Common Shares on the date of this Prospectus or the next two succeeding business days should consult their own advisor.

### Over-Allotment Option

The Company has granted the Underwriters an Over-Allotment Option, exercisable in whole or in part, at the sole discretion of the Underwriters, for a period of 30 days after and including the Closing Date, to purchase up to an additional 1,650,000 Over-Allotment Shares at the Offering Price, solely to cover over-allotments, if any. Under applicable securities laws, this Prospectus qualifies the grant of the Over-Allotment Option and the distribution of the Over-Allotment Shares upon the exercise of the Over-Allotment Option.

### Underwriting Fee

The following table shows the per Offered Share and total Underwriters' Fee the Company will pay to the Underwriters, assuming both no exercise and full exercise of the Over-Allotment Option.

	<b>Over-Allotment Option not exercised</b>	<b>Over-Allotment Option fully exercised</b>
Per Offered Share	US\$ 0.18	US\$ 0.18
Total	US\$1,980,000	US\$2,277,000

The Company estimates that the total expenses of the Offering payable by the Company, not including the Underwriters' Fee, will be approximately US\$750,000. Pursuant to the Underwriting Agreement, the Company has agreed to pay the actual and accountable out-of-pocket expenses of the Underwriters and actual and accountable reasonable fees and disbursements of the Underwriters' counsel, not to exceed 8.0% of the gross proceeds of the Offering when combined with the Underwriters' Fee.

### No Sales of Similar Securities

Except as contemplated by the Underwriting Agreement, the Company has agreed that, subject to certain exceptions, it will not, without the prior written consent of BMO Nesbitt Burns Inc. (not to be unreasonably withheld) on behalf of the Underwriters, directly or indirectly issue, offer, pledge, sell, contract to sell, contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer, lend or dispose of directly or indirectly, any Common Shares or securities or other financial instruments convertible into or having the right to acquire Common Shares or enter into any agreement or arrangement under which the Company would acquire or transfer to another, in whole or in part, any of the economic consequences of ownership of Common Shares, whether that agreement or arrangement may be settled by the delivery of Common Shares or other securities or cash, or agree to become bound to do so, or disclose to the public any intention to do so, during the period from the date of the Underwriting Agreement and ending 90 days following the Closing Date.

The Company's officers and directors will enter into agreements providing that, subject to certain exceptions, for a period beginning from the date of the Underwriting Agreement and ending 90 days from the Closing Date, they will not (and shall cause their affiliates not to), without the prior written consent of BMO Nesbitt Burns Inc., directly or indirectly, offer, sell, contract to sell, transfer, assign, pledge, grant any option to purchase, make any short sale or otherwise dispose of or monetize any Common Shares or any options or warrants to purchase any Common Shares, or any securities convertible into, exchangeable for, or that represent the right to receive Common Shares, and will not enter into any swap, forward or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of the Common Shares (regardless of whether any such arrangement is to be settled by the delivery of securities of the Company, securities of another person, cash or otherwise) or agree to do any of the foregoing or publicly announce any intention to do any of the foregoing.

#### **Indemnification and Contribution**

The Company has agreed in the Underwriting Agreement to indemnify the Underwriters against certain liabilities, including liabilities under the U.S. Securities Act, and Canadian securities laws, and, where such indemnification is unavailable, to contribute to payments that the Underwriters may be required to make in respect of such liabilities.

#### **Price Stabilization, Short Positions**

In order to facilitate the Offering, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of the Common Shares in accordance with applicable securities laws. Specifically, the Underwriters may sell more Common Shares than they are obligated to purchase under the Underwriting Agreement, creating a short position. A short sale is covered if the short position is no greater than the number of Common Shares available for purchase by the Underwriters under the Over-Allotment Option. The Underwriters can close out a covered short sale by exercising the Over-Allotment Option or purchasing Common Shares in the open market. In determining the source of Common Shares to close out a covered short sale, the Underwriters will consider, among other things, the open market price of Common Shares compared to the price available under the Over-Allotment Option. The Underwriters may also sell Common Shares in excess of the Over-Allotment Option, creating a naked short position. The Underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Common Shares in the open market after pricing that could adversely affect investors who purchase in the Offering. As an additional means of facilitating the Offering, the Underwriters may bid for, and purchase, Common Shares in the open market to stabilize the price of the Common Shares. These activities may raise or maintain the market price of the Common Shares above independent market levels or prevent or retard a decline in the market price of the Common Shares. The Underwriters are not required to engage in these activities and may end any of these activities at any time.

Pursuant to the policies of certain Canadian securities regulators, the Underwriters may not, throughout the period of distribution under this Prospectus, bid for or purchase Common Shares. The foregoing restriction is subject to certain exceptions, including: (a) a bid or purchase permitted under the bylaws and rules of applicable regulatory authorities and stock exchanges, including the Universal Market Integrity Rules for Canadian Marketplaces administered by the Investment Industry Regulatory Organization of Canada, relating to market stabilization and passive market-making activities; (b) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution; (c) a bid or purchase to cover a short position entered into prior to the distribution; and (d) transactions in compliance with U.S. federal securities laws. Any such trades are permitted only on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of the Common Shares.

#### **Affiliations**

Some of the Underwriters and their affiliates have in the past engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company for which they have received, and would expect to receive, customary fees and commissions.

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Without limiting the foregoing, since 2011, the Company has engaged BMO Nesbitt Burns Inc. as a financial advisor, and since 2015, the Company has engaged BMO Nesbitt Burns Inc. and Macquarie Capital Markets Canada Ltd. as co-financial advisors, to evaluate certain potential strategic transactions. BMO Nesbitt Burns Inc. and Macquarie Capital Markets Canada Ltd. are Underwriters in the Offering. To date, no transaction or independence-based fees have been paid or become payable pursuant to these arrangements.

### Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), an offer of the Offered Shares described in this Prospectus will not be made to the public in that Relevant Member State other than:

to persons or entities that are "qualified investors" as defined in the Prospectus Directive;

to fewer than 150 natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or

in any other circumstances within Article 3(2) of the Prospectus Directive that do not require the publication of a prospectus pursuant to the Prospectus Directive,

provided that no such offering of Offered Shares shall require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each purchaser of Offered Shares described in this Prospectus located within a Relevant Member State will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive and in the case of any Offered Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive. In the case of any Offered Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the Offering have not been acquired on a nondiscretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any shares to the public other than their offer or resale in a Relevant Member State to "qualified investors" as so defined.

The Company and the Underwriters and their affiliates will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the same may be varied in the Relevant Member State, by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and any amendments thereto), including Directive 2010/73/EU.

### Notice to Prospective Investors in the United Kingdom

The Offered Shares are being offered only in circumstances that comply and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done in relation to such offer in, from or otherwise involving the United Kingdom; and any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) will only be communicated or caused to be communicated in connection with the issue or sale of the Offered Shares in circumstances in which Section 21(1) of the FSMA does not apply.

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This Prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (defined above) and Section 86(7) of the FSMA that are also (a) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), or (b) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a "relevant person"). This Prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

### LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon on behalf of the Company by Gowling WLG (Canada) LLP, as to Canadian legal matters, and Dorsey & Whitney LLP, as to U.S. legal matters. Certain legal matters in connection with the Offering will be passed upon on behalf of the Underwriters by Blake, Cassels & Graydon LLP, as to Canadian legal matters, and Skadden, Arps, Slate, Meagher & Flom LLP, as to U.S. legal matters.

As of the date of this Prospectus, the partners and associates of Gowling WLG (Canada) LLP and Blake, Cassels & Graydon LLP beneficially own, directly or indirectly, in the aggregate less than 1% of the issued and outstanding Common Shares.

### INTERESTS OF EXPERTS

The technical information, mineral reserve and mineral resource estimates and economic estimates relating to Project 1, the Waterberg JV Project, the Waterberg Extension Project and the Company's other properties included or incorporated by reference in this Prospectus has been included or incorporated by reference in reliance on the report, valuation, statement or opinion of the persons described below. The following persons, firms and companies are named as having prepared or certified a report, valuation, statement or opinion in this Prospectus, either directly or in a document incorporated by reference.

Name	Description
Charles Muller (B. Sc. (Hons) Geology) Pri. Sci. Nat., CJM Consulting, South Africa, (Pty) Ltd.	Co-authored the Project 1 Report; authored the technical report entitled "Technical Report on Project 3 Resource Cut Estimation of the Western Bushveld Joint Venture (WBJV) Located on the Western Limb of the Bushveld Igneous Complex, South Africa" dated August 31, 2010; and authored the April 2016 Waterberg Report.
Gert Roets (B. Eng. Mining), Pr. Eng. (ECSA), of DRA Projects SA (Pty) Ltd.	Co-authored the Project 1 Report.
Gordon Cunningham B. Eng. (Chemical), Pr. Eng. (ECSA) of Turnberry Projects (Pty) Ltd.	Co-authored the Project 1 Report.
R. Michael Jones P. Eng., Platinum Group Metals Ltd.	The President and Chief Executive Officer of the Company. The non-independent qualified person for all scientific and technical information included or incorporated by reference herein that is not attributed to one of the above-named persons.

None of the experts named in the foregoing section held, at the time they prepared or certified such statement, report, opinion or valuation, received after such time or will receive any registered or beneficial interest, direct or indirect, in any securities or other property of the Company or one of the Company's

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associates or affiliates other than R. Michael Jones, the President and Chief Executive Officer of the Company, who owns 272,920 Common Shares representing 0.35% of the issued and outstanding Common Shares as of the date of this Prospectus.

Except as otherwise stated above, none of the aforementioned persons, and the directors, officers, employees and partners, as applicable, of each of the aforementioned persons received or will receive a direct or indirect interest in any property of the Company or any associate or affiliate of the Company.

Except as otherwise stated above, none of the aforementioned persons, nor any director, officer, employee, consultant or partner, as applicable, of the aforementioned persons is currently expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associate or affiliate of the Company.

In addition, PricewaterhouseCoopers LLP, the external auditor of the Company, provided an auditor's report on the Annual Financial Statements. PricewaterhouseCoopers LLP report that they are independent of the Company in accordance with the rules of professional conduct of the Institute of Chartered Professional Accountants of British Columbia and are an independent registered public accounting firm within the meaning of the U.S. Securities Act and the applicable rules and regulations adopted by the SEC and the Public Company Accounting Oversight Board (United States).

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Professional Accountants, of 250 Howe Street, 7<sup>th</sup> Floor, Vancouver, British Columbia, V6C 3S7.

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal offices in the cities of Toronto, Ontario and Vancouver, British Columbia.

The U.S. co-transfer agent for the Common Shares is Computershare Trust Company, N.A., at its offices in Golden, Colorado.





**PART II**  
**INFORMATION NOT REQUIRED TO BE DELIVERED TO**  
**OFFEREES OR PURCHASERS**

**Indemnification of Directors and Officers.**

Section 160 of the Business Corporations Act (British Columbia) ("BCBCA") provides that a company may do one or both of the following:

- (a) indemnify an eligible party against all eligible penalties, which are judgments, penalties or fines awarded or imposed in, or amounts paid in settlement of, an eligible proceeding, to which the eligible party is or may be liable; and/or
- (b) after the final disposition of an eligible proceeding, pay the expenses (which includes costs, charges and expenses, including legal and other fees, but excludes judgments, penalties, fines or amounts paid in settlement of a proceeding) actually and reasonably incurred by an eligible party in respect of that proceeding.

However, after the final disposition of an eligible proceeding, a company must pay the expenses actually and reasonably incurred by an eligible party in respect of that proceeding if the eligible party has not been reimbursed for those expenses, and is wholly successful, on the merits or otherwise, or is substantially successful on the merits, in the outcome of the proceeding. The BCBCA also provides that a company may pay, as they are incurred in advance of the final disposition of an eligible proceeding, the expenses, actually and reasonably incurred by an eligible party in respect of that proceeding. However, a company must not make the payments referred to immediately above unless the company first receives from the eligible party a written undertaking that, if it is ultimately determined that the payment of expenses is prohibited under the BCBCA, the eligible party will repay the amounts advanced.

For the purposes of the BCBCA, an "eligible party", in relation to a company, means an individual who:

- (a) is or was a director or officer of the company;
- (b) is or was a director or officer of another corporation at a time when the corporation is or was an affiliate of the company, or at the request of the company; or
- (c) at the request of the company, is or was, or holds or held a position equivalent to that of, a director or officer of a partnership, trust, joint venture or other unincorporated entity,

and includes, with some exceptions, the heirs and personal or other legal representatives of that individual.

An "eligible proceeding" under the BCBCA is a proceeding in which an eligible party or any of the heirs and personal or other legal representatives of the eligible party, by reason of the eligible party being or having been a director or officer of, or holding or having held a position equivalent to that of a director or officer of, the company or an associated corporation, is or may be joined as a party, or is or may be liable for or in respect of a judgment, penalty or fine in, or expenses related to, the proceeding. A "proceeding" includes any legal proceeding or investigative action, whether current, threatened, pending or completed.

Notwithstanding the foregoing, the BCBCA prohibits a company from indemnifying an eligible party or paying the expenses of an eligible party if any of the following circumstances apply:

- (a) if the indemnity or payment is made under an earlier agreement to indemnify or pay expenses and, at the time such agreement to indemnify or pay expenses was made, the company was prohibited from giving the indemnity or paying the expenses by its memorandum or articles;
- (b) if the indemnity or payment is made otherwise than under an earlier agreement to indemnify or pay expenses and, at the time that the indemnity or payment is made, the company is prohibited from giving the indemnity or paying the expenses by its memorandum or articles;

- (c) if, in relation to the subject matter of the eligible proceeding, the eligible party did not act honestly and in good faith with a view to the best interests of the company or the associated corporation, as the case may be; or

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- (d) in the case of an eligible proceeding other than a civil proceeding, if the eligible party did not have reasonable grounds for believing that the eligible party's conduct in respect of which the proceeding was brought was lawful.

Additionally, if an eligible proceeding is brought against an eligible party by or on behalf of the company or an associated corporation, the company must not indemnify the eligible party or pay or advance the expenses of the eligible party in respect of the proceeding.

Whether or not payment of expenses or indemnification has been sought, authorized or declined under the BCBCA, section 164 of the BCBCA provides that, on the application of a company or an eligible party, the Supreme Court of British Columbia may do one or more of the following:

- (a) order a company to indemnify an eligible party against any liabilities incurred by the eligible party in respect of an eligible proceeding;
- (b) order a company to pay some or all of the expenses incurred by an eligible party in respect of an eligible proceeding;
- (c) order the enforcement of, or any payment under, an agreement of indemnification entered into by a company;
- (d) order a company to pay some or all of the expenses actually and reasonably incurred by any person in obtaining an order under section 164 of the BCBCA; or
- (e) make any other order the court considers appropriate.

Section 165 of the BCBCA provides that a company may purchase and maintain insurance for the benefit of an eligible party or the heirs and personal or other legal representatives of the eligible party against any liability that may be incurred by reason of the eligible party being or having been a director or officer of, or holding or having held a position equivalent to that of a director or officer of, the company or an associated corporation.

The Registrant's articles provide that the Registrant must, subject to the BCBCA, indemnify a director, former director, alternate director, officer or former officer of the Registrant or of any affiliate of the Registrant and his or her heirs and legal personal representatives against all eligible penalties to which such person is or may be liable, and the Registrant must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding. Each director, alternate director and officer of the Registrant or any affiliate of the Registrant is deemed to have contracted with the Registrant on the above terms.

The Registrant's articles further provide that the Registrant may, subject to any restrictions in the BCBCA, indemnify any other person and that the failure of a director, alternate director or officer of the Registrant to comply with the BCBCA or the Registrant's articles does not invalidate any indemnity to which he or she is entitled under the Registrant's articles.

The Registrant is authorized by its articles to purchase and maintain insurance for the benefit of any person (or his or her heirs or legal personal representatives) including, but not limited to, any current or former directors, alternate directors, officers, employees or agents of the Registrant or any affiliate of the Registrant.

The Registrant maintains directors' and officers' liability insurance coverage through a policy covering the Registrant and its subsidiaries, which has an annual policy limit of CAN\$15,000,000, subject to a corporate retention (i.e. deductible) of up to CAN\$250,000 per claim. This insurance provides coverage for indemnity payments made by the Registrant to its directors and officers as required or permitted by law for losses, including legal costs, incurred by directors and officers in their capacity as such. This policy also provides coverage directly to individual directors and officers if they are not indemnified by the Registrant. The insurance coverage for directors and officers has customary exclusions, including, but not limited to, acts determined to be uninsurable under laws, or conduct arising out of, based upon, or attributable to, any remuneration, profit or other advantage to which the insured was not entitled to, or deliberate fraudulent or criminal act by the insured.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.



**EXHIBITS**

- 3.1\* Underwriting Agreement between the Registrant and the underwriters named therein.
- 4.1 Annual information form of the Registrant dated November 24, 2015 for the financial year ended August 31, 2015 (incorporated by reference to Exhibit 99.1 to the Registrant's Annual Report on Form 40-F filed with the Commission on November 25, 2015).
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  - 5.2\* Consent of Gordon I. Cunningham.
  - 5.3\* Consent of R. Michael Jones.
  - 5.4\* Consent of Gert Roets.
  - 5.5\* Consent of Charles J. Muller.
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\*

Previously filed.

**PART III**

**UNDERTAKING AND CONSENT TO SERVICE OF PROCESS**

**Item 1. Undertaking.**

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities registered pursuant to this Form F-10 or to transactions in said securities.

**Item 2. Consent to Service of Process.**

- (a) The Registrant has filed with the Commission a written irrevocable consent and power of attorney on Form F-X.
- (b) Any change to the name or address of the Registrant's agent for service shall be communicated promptly to the Commission by amendment to Form F-X referencing the file number of this Registration Statement.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-10 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Vancouver, British Columbia, Canada, on this 18<sup>th</sup> day of May, 2016.

**PLATINUM GROUP METALS LTD.**

By:           /s/ R. MICHAEL JONES          

Name: R. Michael Jones  
 Title: President, Chief Executive Officer and  
 Director

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
<u>          /s/ R. MICHAEL JONES          </u>	President, Chief Executive Officer and Director (principal executive officer)	May 18, 2016
R. Michael Jones <u>          /s/ FRANK HALLAM          </u>	Chief Financial Officer, Secretary and Director (principal financial and accounting officer)	May 18, 2016
Frank Hallam *	Director	May 18, 2016
Eric Carlson *	Director	May 18, 2016
Iain McLean *	Director	May 18, 2016
Timothy Marlow *	Director	May 18, 2016
Barry W. Smee *	Director and Authorized Representative in the United States	May 18, 2016
Diana Walters		

\*By:           /s/ FRANK HALLAM          

Name: Frank Hallam  
*Attorney- in- fact*



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