

Capital Pool Company Program – TSX Venture Exchange

Overview of the Capital Pool Company Program

The capital pool company program was designed to provide businesses with an opportunity to obtain financing earlier in their development than might be possible with an initial public offering (IPO). The capital pool company program permits an IPO to be conducted, and a listing on the TSX Venture Exchange (TSX.V) to be achieved, by a newly created company that has no assets other than cash, and has not commenced commercial operations. The capital pool company (CPC) then uses this pool of funds to identify and evaluate assets or businesses which, when acquired, qualify the CPC for listing as a regular Tier 1 or Tier 2 Issuer on the TSX.V. The only business permitted to be undertaken by a CPC is the identification and evaluation of assets or businesses with a view to completing a qualifying transaction (QT). Rules governing the CPC program may be found in Policy 2.4 in the TSX.V Corporate Finance Manual.

Stages in the Capital Pool Company Program

The CPC program is a two-stage process. The first stage involves the filing and clearing of a CPC Prospectus, the completion of the IPO and the listing of the CPC's common shares on the TSX.V. The second stage involves an Agreement in Principle for a proposed QT and the preparation and filing with the TSX.V of a CPC Information Circular or CPC Filing Statement, as applicable. Generally, a CPC Filing Statement is filed for an arm's length QT and a CPC Information Circular is filed for a non-arm's length QT. The CPC has two years from the date of listing on the TSX.V to complete its QT.

Stage 1 – Prospectus and TSX.V Listing

The following steps are typically followed in Stage 1 of the CPC program:

- A CPC retains: 1) an agent who must sign the CPC Prospectus as underwriter, 2) a lawyer who assists with the prospectus and listing process, and 3) an auditor who provides assurance on the annual and interim financial statements to be included in the prospectus.
- The directors and officers of the CPC capitalize the company by purchasing seed shares. Seed capital raised through the issuance of seed shares must be equal to or greater than \$100,000 or the 5% of the aggregate of all proceeds received by the CPC on the date of its final prospectus resulting from the issuance of treasury securities. All seed shares issued at price lower than shares issued in the company's IPO will be placed in escrow.
- The financial statements of the CPC are audited by the company's external auditors at the same time that the company's lawyers assist with the preparation of the preliminary CPC Prospectus.



- The preliminary CPC Prospectus and all supporting documents required by securities legislation are filed concurrently with the TSX.V via SEDAR, an electronic filing system for public company documents, and with the securities commissions in those jurisdictions where the distribution is to be made.
- Concurrently with the filing of the preliminary CPC Prospectus, the CPC must also make an application to the TSX.V for conditional acceptance of the listing of the CPC.
- The TSX.V will issue comments on the preliminary CPC Prospectus and the application for listing. When the CPC has satisfactorily resolved the significant comments of the TSX.V, the application for listing will then be presented to the Executive Listing Committee of the TSX.V for consideration. If the application for listing is conditionally accepted, and the relevant securities commissions indicate via SEDAR that they are clear to receive final materials, the CPC will file its final CPC Prospectus and all supporting documents via SEDAR with the TSX.V and the securities commissions.
- After each applicable securities commission has issued a final receipt for the CPC Prospectus, the CPC will close the IPO. After the closing, final listing documentation is filed with the TSX.V.
- If all of the final listing documentation is satisfactory, the TSX.V issues a TSX.V bulletin evidencing its final acceptance of the documents and indicating that the CPC's shares will commence trading on the TSX.V in two trading days. On the date specified in the TSX.V bulletin, the shares will commence trading on Tier 2 of the TSX.V with the designation ".P" beside the stock symbol to indicate that the Issuer is a CPC.

Stage 2 – Completion of a Qualifying Transaction

The following steps are typically followed in Stage 2 of the CPC program:

- The CPC reaches an Agreement in Principle to acquire a target company or assets that form the basis of the CPC's QT. As soon as the CPC reaches an Agreement in Principle, it must issue a comprehensive news release. A material change report must be filed pursuant to applicable securities legislation. When the CPC anticipates that it will be issuing a news release, it must immediately send a copy of the draft news release to the Corporate Finance Department of the TSX.V for review.
- Trading in the listed shares of the CPC will be halted pending the announcement of the Agreement in Principle. Trading will remain halted until the TSX.V has received the Sponsorship Acknowledgement Form and a Personal Information Form for each person who will be a director, senior officer, promoter or other insider of the resulting issuer. The TSX.V must also receive a resume for each director and senior officer of the resulting Issuer. In addition, the TSX.V is required to complete any preliminary background searches it considers necessary and a comprehensive news release acceptable to the TSX.V.



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- The CPC has 75 days from the announcement of the Agreement in Principle to make the initial submission required by the TSX.V. The primary documents in the initial submission are the draft CPC Information Circular or CPC Filing Statement, and if there is a sponsor, confirmation that the sponsor has reviewed the draft CPC Information Circular or CPC Filing Statement. The CPC must prepare and file a CPC Information Circular, proxy material and related information if shareholder approval is required for the QT. If shareholder approval is not required, the CPC Filing Statement serves as the disclosure document. The CPC should consider holding a pre-filing conference with the TSX.V, particularly where the Agreement in Principle or proposed QT may involve unique or unusual circumstances.
- The TSX.V reviews the draft CPC Information Circular or CPC Filing Statement and the supporting documents including, if applicable, the preliminary sponsor report, and provides its comments. Provided that the comments in the initial TSX.V comment letter are not of a substantial nature, if shareholder approval is required, the TSX.V will permit the CPC to set the date for the shareholder meeting for approval of the proposed QT. If the TSX.V determines that the draft CPC Information Circular or CPC Filing Statement and any supporting documents contain significant deficiencies, the TSX.V may request that the CPC re-file all of the materials at a later date. In these circumstances, the TSX.V may not commence its initial detailed review of the draft CPC Information Circular or draft CPC Filing Statement or any other supporting document including, if applicable, the preliminary sponsor report, until such deficiencies are substantially resolved.
- The initial submission is presented to the Executive Listings Committee of the TSX.V for consideration. If the application is conditionally accepted, the CPC will be invited to file the applicable documentation with the TSX.V and mail the CPC Information Circular to the shareholders.
- Concurrently with mailing the CPC Information Circular to the shareholders, the CPC must file the CPC Information Circular with the TSX.V and the relevant securities commissions via SEDAR. If no shareholder approval is required, the CPC must file the CPC Filing Statement via SEDAR once it has obtained conditional approval from the TSX.V. The CPC Filing Statement must be filed via SEDAR at least seven business days prior to the closing of the QT and a news release must be issued. Upon issuance of the news release, trading in the listed shares of the CPC will be briefly halted to permit dissemination of the news release.
- If required by TSX.V Policy 2.4 or corporate or securities legislation, the CPC must then hold the shareholders' meeting where the shareholders are asked to grant shareholder approval of the proposed QT, and to approve any other related matters. If the shareholders approve the QT, the CPC may then proceed to close the QT and acquire the target company or assets. Where the QT is not subject to shareholder approval, the CPC may close the QT after filing the CPC Filing Statement on SEDAR.
- After closing the QT, the CPC is required to file with the TSX.V all applicable final post-meeting documentation. Provided that the documentation is satisfactory, the TSX.V will issue the Final Exchange Bulletin that evidences final acceptance and confirms the completion of the QT. The Final Exchange Bulletin also indicates that the resulting issuer will not be considered a CPC, will not trade with the designation ".P" and will commence trading in two trading days under a new name and a new stock symbol, if applicable.



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Contact Us

Manning Elliott can provide you with a full range of public company assurance services through each stage of the CPC Program. These services are outlined on our website at <http://www.manningelliott.com/public-companies.html>.

We would be pleased to discuss your capital pool company assurance needs with you. Please contact our public company engagement partners at:

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