



# Canadian IPO Alternatives

*Undertaking an RTO Transaction on the TSX Venture Exchange*

By: Allan J. Ritchie BA, JD, LL.M(Tax), MBA

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### **A. Introduction**

This white paper was prepared to provide readers with a general overview of alternative methods of “going public” on the Canadian stock exchanges with a particular focus on achieving a listing on the TSX Venture Exchange (“TSX.V” or the “Exchange”) through a reverse takeover or, “RTO” type transaction.

Canadian and provincial securities laws and TSX Venture Exchange policies provide subtle distinctions among RTO transactions, Capital Pool Company Qualifying Transactions, and NEX Reactivation Transactions however the overall regulatory regime is principally the same and therefore the omnibus term “RTO” is used throughout to refer interchangeably to any of the various TSX.V RTO type transactions.

The content of this document is intended to provide broad information only and should not be taken as definitive legal advice. Readers are advised to consult Canadian legal counsel prior to taking any action based on the information provided herein.

### **B. Canadian Capital Markets Overview**

In Canada, the vast majority of trading in public securities takes place on the TSX and TSX Venture Exchange (formerly the Toronto Stock Exchange and Canadian Venture Exchange respectively). These markets host very active and liquid trading of a diverse range of securities, including major Canadian conglomerates and international Issuers inter-listed on the TSX, and startup resource and technology companies on the TSX.V. In addition to these major marketplaces, Canada has an advanced derivatives market and is a leader in the development of alternative trading and quotation systems.

#### ***TSX***

The largest securities marketplace in Canada is the TSX. At December 31, 2009, 1,613 Issuers, with an aggregate market capitalization of \$2.1 trillion were listed on the TSX.<sup>2</sup> Trading occurs on a continuous basis throughout the day, but begins at market open in an auction format and ends with an extended trading session in which trades occur at the closing price (referred to as a “single price closing call” market). Trading also occurs through “crosses” in which participating organizations internally match orders and report them through the exchanges. All trades are settled through the Canadian Depository for Securities Limited (CDS).

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<sup>2</sup> TSX Group Annual Report 2009 at 13



### *TSX Venture Exchange*

The TSX.V is a public marketplace for emerging companies. At December 31, 2009, 2,338 Issuers with an aggregate market capitalization of \$58.5 billion were listed on the TSX.V. While the TSX.V has been particularly successful in attracting resource companies, its Issuers represent a diverse mix of industry sectors, including industrial, life sciences, technology and financial services.

Many private companies look to accelerate their growth by going public on the TSX.V. They may become listed through the traditional initial public offering (IPO) route, or through certain vehicles unique to the TSX.V such as the Capital Pool Company (CPC) and Special Purpose Acquisition Company (SPAC) programs. A listing can also be achieved through a reverse takeover of a company trading on the TSX.V or NEX (see below).

### *NEX*

NEX is a separate board of the TSX.V. It provides a trading forum for listed companies that have fallen below the TSX.V's ongoing listing standards. Companies that have low levels of business activity or have ceased to carry on active business will trade on the NEX board, while companies that are actively carrying on business and pursuing growth and shareholder value will remain with the main stock list of TSX.V. In the event that a NEX listed Issuer meets the TSX.V's minimum listing requirements (either through acquisition, internal growth or reverse takeover) it will be eligible to be relisted on the TSX.V.

### *MX (Montreal Exchange)*

The Montreal Exchange (MX) is a fully electronic exchange dedicated to the development of the Canadian derivative markets. The market for exchange-traded derivatives is an important part of the financial risk management industry. MX offers individual and institutional investors, both in Canada and abroad, a wide range of products for managing risk and achieving growth.

## **C. Alternative Listing Strategies**

The IPO process in Canada, as in most jurisdictions, is a long, expensive and often uncertain process. The IPO process is heavily dependent on market timing and market conditions. While the IPO process may be an ideal exit mechanism for mature companies, it is often mismatched when it comes to small cap technology and resource companies. For this reason, many of these companies choose to remain private and as a result are not able to avail themselves of the many benefits that a public listing affords. Publicly traded companies have the following advantages over private companies:

- Increased liquidity;
- The ability to use stock as currency to fund growth through acquisitions; and
- The ability to raise future capital quickly and to offer securities concurrently with positive company news (i.e. drilling results, pharmacological approvals etc.).

Given the numerous benefits of a public listing and the corresponding costs and delay involved in a formal IPO process, the attractiveness of alternative listing mechanisms becomes evident.



There are technically a number of routes through which a private company can become publicly listed on the Canadian markets, generally however, they can fall into two broad categories: *Direct Listings* and *Reverse Takeovers*.

### ***Direct Listing***

An Issuer already listed on another stock exchange may, in certain circumstances list directly on the Toronto Stock Exchange (TSX) or TSX.V if they are able to meet the relevant exchange's initial listing requirements. As well, these Issuers may be eligible for certain exemptions from regulatory and reporting requirements if they are listed on a foreign stock exchange recognized by TSX, and if that stock exchange has similar listing requirements as TSX or TSX.V.

In recent years, a number of companies listed on exchanges outside of Canada have sought direct listings on the TSX and TSX.V either as a result of falling below the minimum listing requirements of a more senior exchange such as the NYSE, or as a way to increase exposure to industry focused analysts in the biotechnology and resource sectors.

Companies with a solid record of compliance and timely disclosure who meet the initial listing requirements of the TSX or TSX.V can expect minimal delay and expense in migrating or inter-listing the company's stock in Canada.

### ***Reverse Takeovers Generally***

Reverse Takeovers ("RTOs") generally stated, are transactions where an operating private company (the "Target") sells its shares or assets to an existing public company (the "Issuer") in exchange for newly issued shares of the Issuer, usually resulting in a change of control of the Issuer.

In Canada there are a number of options available to a private company seeking to undertake an RTO transaction. The preferred method of accomplishing the RTO will depend largely on the financial and business characteristics of the Target. Viewed broadly, a Target can undertake an RTO in any of the following manners:

- TSX
  - TSX Reverse Takeover
  - (TSX) Special Purpose Acquisition Vehicle Qualifying Transaction
  
- TSX Venture Exchange
  - TSX.V Reverse Takeover
  - (TSX.V) Capital Pool Company Qualifying Transaction
  - NEX Reactivation



## D. TSX Reverse Takeover Options

### *TSX RTO*

The TSX is home to Canadian listed large cap stocks. Target companies who will meet the TSX's initial listing requirements following the transaction are able to engage in an RTO transaction with an existing TSX listed company. The characteristics of a TSX RTO differ from the TSX.V RTO in that the parties to a TSX RTO are generally mature operating companies. The primary objective of a TSX RTO is usually focused on effecting a strategic combination of businesses instead of an alternative method of becoming public.

### *TSX Special Purpose Acquisition Company Qualifying Transaction (SPAC QT)*

A Target company that is of sufficient size, such that it would meet the TSX initial listing requirements may seek to obtain a public listing by undertaking a transaction with a TSX Special Purpose Acquisition Company ("SPAC").

A SPAC is a publicly traded shell corporation that has no operating business (current or previous) that must use the money raised from its IPO to finance an acquisition of an operating business.

A SPAC must raise a minimum of \$30 million dollars from at least 300 public shareholders via its IPO. In addition, at least 1,000,000 freely tradable securities must be held by public holders and be issued for no less than \$2.00 a share or unit. A SPAC is free to issue either common shares or units (consisting of a common share and up to two warrants). If an acquisition is not completed within the defined time frame (typically two to three years), shareholders have the right to receive their pro rata share of the Escrowed Funds (excluding any shares held by the founders of the SPAC).

## E. TSX Venture Exchange RTO Options

### *TSX.V RTOs*

The TSX.V RTO process applies to traditional RTO transactions with TSX.V Issuers as well as NEX Reactivation transactions and (with certain caveats) to CPC QT transactions (see discussion of NEX and CPC QTs below). The end result of a TSX.V RTO is essentially to provide the private company with a public listing on a shorter timeline and in a more cost-efficient manner than a formal IPO.

The TSX.V defines a reverse takeover as follows:

***A reverse takeover is any transaction or series of transactions, involving an acquisition by the Issuer or of the Issuer, and a securities issuance by an Issuer that results in:***

- (a) new Shareholders holding more than 50% of the outstanding voting securities of the Issuer; and***
- (b) a Change of Control of the Issuer. The Exchange may deem a transaction to have resulted in a Change of Control by aggregating the shares of a vendor group and/or incoming management group,***



***but does not include any transaction or series of transactions whereby the newly issued securities are to be issued to shareholders of an Issuer listed on TSX or another senior exchange under a formal takeover bid.***

The Post RTO “Resulting Issuer” must meet the initial listing requirements of the TSX.V, and must submit to an approval procedure similar to that of an original listing application.

As discussed in greater detail below, the NEX board provides the potential for an additional source of listed shell companies. This allows shareholders of a private company to merge with an Issuer that has no substantial business activity.

### ***Capital Pool Company Qualifying Transaction (CPC QT)***

Similar to the SPAC discussed above, although for smaller cap Issuers, the Capital Pool Company program provides an alternative, two-step pathway to the capital markets. The CPC program connects investors with financial market experience to Targets whose growth and development-stage businesses require capital and public company management expertise. Unlike a traditional IPO, the CPC program enables seasoned directors and officers to form a “Capital Pool Company” with no assets other than cash and no commercial operations, list it on the TSX.V, and raise a pool of capital. The CPC then uses these funds to seek out an investment opportunity in a growing business. Once the CPC has completed its “qualifying transaction” and acquired an operating company that meets Exchange listing requirements, its shares continue trading as a regular listing on the TSX.V. The regulatory steps involved in undertaking an RTO with a CPC as Issuer are similar to the steps involved in a TSX.V RTO or a NEX Reactivation transaction.

### ***NEX Reactivation***

NEX is a separate trading board of the TSX.V. It provides a trading forum for Issuers that have fallen below the Exchange’s ongoing listing standards. It is also an environment where Targets can identify NEX Issuers for reverse takeover opportunities with a view to reactivate and graduate to the TSX.V. A NEX reactivation transaction is essentially a reverse takeover where the Target company, either alone or combined with a concurrent financing will satisfy the initial listing requirements of either Tier 1 or 2 of the TSX.V.

## **F. Diligence Considerations for a TSX.V RTO**

The first step towards undertaking an RTO transaction on the TSX.V is to ensure that the Resulting Issuer will meet the initial listing requirements of a TSX.V Tier 1 or Tier 2 Issuer. It is important, not only to evaluate whether the financial and asset tests are met, but also to evaluate management to ensure that any competency gaps can be filled prior to listing.

Many private companies contemplating a public listing are surprised by the burdens of public disclosure and governance formalities that come with being listed on the Exchange.



### ***Initial Listing Requirements***

Appendix A sets out the initial listing requirements that are applicable to TSX.V Issuers according to their particular Industry. Tier 1 is the TSX.V's premier tier and is reserved for the Exchange's most advanced Issuers with the most significant financial resources or assets. Tier 1 Issuers benefit from decreased filing and Principal Securities escrow requirements as compared to Tier 2 Issuers.

### ***Audit Requirements***

One of the key factors which will affect the time that it takes to complete an RTO Transaction on the TSX.V is ensuring that the Target company has the requisite audit history as required to be disclosed in the disclosure document (Form 3D1 or Form 3B1). Generally stated, the Target should have audited income statements and statements of retained earnings & cash flow for each of the last three completed fiscal years. In the event that the Target has not completed 3 years of operations, audited statements would need to be provided for each completed financial year ended more than 90 days before the date of submission of the filing statement.

The TSX.V will generally accept audited financial statements prepared in accordance with U.S. GAAP provided that reconciliation to Canadian GAAP is set out in the notes. Ordinarily, pro-forma statements are required showing the combined financial position of the Resulting Issuer. In circumstances where the RTO transaction is being undertaken with an existing Issuer that has ceased operations and has no operating revenue and expenses other than the continued compliance obligations and administrative costs of maintaining the TSX.V listing, it may be possible to omit the preparation of pro forma financial statements.

### ***Evaluating the Issuer***

Except in situations where the Issuer owns assets that are of strategic importance to the Issuer, the Target company should seek out RTO counterparties with little or no existing debt, a sound regulatory history and management that appears open and cooperative in their approach to the RTO transaction. The TSX.V NEX Board serves as a starting point to identify potential shell companies. In addition, the TSX.V maintains a list of Capital Pool Companies seeking a qualifying transaction which can serve as a source of potential shell companies. As a general matter, the CPCs will tend to have a cleaner structure given that, by definition, they do not have any operating history, however a NEX Issuer may be a more willing participant in the RTO transaction given that management and investors may be eager to exit.

### ***Director and Officer Competency Requirements***

The Issuer must have at least three directors, at least two of which must be independent. Management must include, at a minimum, a CEO, a financially literate CFO as defined by NI 52-110 and a corporate secretary. The directors and officers must all be at least eighteen years old and qualified under the relevant corporate and securities laws to serve in their position. Management, directors and officers must have adequate experience and technical expertise relevant to the Issuer's business and industry, and adequate reporting Issuer experience in Canada or a similar jurisdiction.

In addition to the technical and management experience requirements listed in Policy 3.1, there are a number of prohibitions on who may be a director or officer. Individuals who are undischarged



bankrupts, subject to disciplinary proceedings, been convicted of fraud, or are subject to any other prohibition in Policy 3.1 will be unable to serve as a director or officer. However, in most situations the Exchange has discretion to allow the prohibited individual to serve, with or without conditions.

### *Sponsorship*

Sponsorship is required with any application for a listing on the TSX.V other than an IPO, or if the application is in the context of a Reverse Takeover, Capital Pool Company acquiring significant non-cash assets or where there is a change of business that represents a non-integrated business.

A sponsor must be a member of the exchange with sufficient corporate finance experience as required to prepare the sponsor's report. This role will usually be fulfilled by the Issuer's primary Canadian investment bank.

The sponsor must submit two documents to the Exchange:

- Sponsorship Acknowledgement Form (Form 2G) – This document informs the TSX.V that the potential sponsor is prepared to act as sponsor, has conducted preliminary due diligence and can provide the assurances required by Form 2G.
- Sponsor Report (Form 2H) – This document provides the results of the sponsor's due diligence of the Issuer and the transaction. The Sponsor Report is expected to disclose, but is not limited to, material information that would impact the Issuer's suitability for listing, the sponsor's qualifications, any conflicts of interest and any experts used in preparation of the Sponsor Report.

There are certain situations where the TSX.V may exempt an Issuer from sponsorship requirement. Generally they will fall into the one of two broad categories:

- The Issuer is not a foreign Issuer (Canada or United States), the Issuer's officers and directors are highly qualified with strong reputations, experience, knowledge, and financing ability, and the Issuer is a Mining or an Oil and Gas Issuer that meets the requirements to be initially listed at least at Tier 2 and has a current geological report for each of the Issuer's qualifying and principal properties; or
- The Issuer files a Transaction Disclosure Form (Form 2I) and either there is significant involvement from a bank or other major financial institution or the Issuer conducts a concurrent brokered financing of at least \$500,000 in connection with the transaction and the agent for the transaction has provided the Exchange with the appropriate due diligence on both the transaction and the disclosure document.

In order to rely on any exemptions, the Issuer must contact TSX.V staff and arrange for a pre-filing conference (described below) in order to confirm that the transaction is exempt from sponsorship.

## G. The TSX.V RTO Process

### *Confidentiality Agreement and Due Diligence Period*

Upon the initial meeting between management of the Issuer and the Target it is customary for the parties to enter into a confidentiality agreement whereby the parties would undertake mutual due diligence. It is common for this period to last anywhere from 2 weeks to 30 days. The mutual due diligence period also serves as a fact gathering exercise for the professional advisors who will be preparing the listing statement and proxy materials. The diligence period will likely also coincide with the negotiation of the definitive RTO agreement. If the proposed transaction requires the preparation of a sponsors report, it is prudent to have the sponsor participate in the due diligence process in order to ensure that they are able to meet their internal due diligence requirements and that the preparation of the sponsors report does not slow the progress of the transaction in later stages.

### *Pre-Filing Conference*

Depending on the form of the transaction, a pre-filing conference with Exchange staff may be required, or recommended, especially when the circumstances are or may be unique. The purpose of the pre-filing conference is to facilitate filings and identify key issues as early as possible.

Once the conference has been scheduled, certain draft filing documents should be submitted to the Exchange at least three business days before the conference. This document package would generally include financial statements, business plans or geological reports, as well as certain prescribed information about the proposed officers, directors and significant shareholders of the Resulting Issuer.

If the conference is recommended, but not required, and the Issuer chooses not to make use of it, then the Exchange will require additional time to review the Issuer's transaction filing, which may go beyond the normal time limits.

### *Concurrent Financing*

Issuers considering a concurrent private placement should consider TSX.V Exchange Policy 4.1. In particular, Issuers should ensure that the following matters have been addressed:

- Has the Issuer obtained price protection in respect of the private placement issue price?
- Does the proposed issue price comply with the maximum Discounted Market Price (15%-25% discount to closing price)?
- Have the applicable hold periods been determined (generally 4 months for private placement stock)?
- Are the applicable finder's fees and commission consistent with the requirements of TSX Exchange Policy 4.1?
- Do insiders comprise less than 25% of the places as required to maintain price protection for Insiders?
- Does the private placement Notice provide sufficient information in respect of use of proceeds?



Where an Issuer undertakes a Private Placement that forms part of an RTO, it must disclose this information in its Exchange filing application and in the news release disclosing the transaction.

### *The RTO Agreement*

Depending on the structure of the given transaction, an RTO agreement can take many forms. The agreement may take the form of a share purchase agreement, asset purchase agreement, amalgamation agreement or other business acquisition agreement (any one of which would be an RTO agreement for TSX.V regulatory purposes). It is common to include a ‘fiduciary out clause’ permitting directors of the Issuer to terminate the agreement in the event of an arm’s length superior proposal however it is unlikely to be a practical concern if the Issuer is merely a non-operating shell. Break fees are not uncommon, but are not always present. The RTO Agreement negotiations may also include principal shareholder support agreements whereby certain large block holders agree to vote their securities in favour of the RTO transaction.

### *Press Releases*

Immediately upon the Issuer reaching a binding RTO Agreement the Exchange must be notified and provided with a draft copy of the Issuer’s news release in prescribed form. The Exchange will coordinate the timing of the release with the Issuer.

In addition to this initial press release, the Issuer must issue an additional press release upon the occurrence of any of the following events:

- Any material change relating to the RTO and in accordance with applicable securities laws;
- Upon engagement of the Sponsor if required and if not already disclosed in the initial press release;
- Every 30 days to update the initial news release;
- In the event the Issuer wishes to continue a trading halt; and
- Upon closing of the RTO.

### *Trading Halts*

As soon as an Issuer notifies the Exchange of a proposed RTO, the securities of the Issuer will be immediately subject to a trading halt. In order to ensure that this trading halt is minimized, it is advisable to ensure that full disclosure of all required elements of the transaction are disclosed during the pre-filing conference.

Trading in the securities of the Issuer will remain halted until all required preliminary documents have been filed and the Exchange has completed its necessary background checks. Issuers who avail themselves of the pre-filing conference process will likely experience a shorter trading halt as a result of the fact that many of the required documents have been approved in principle by the Exchange.

### *Escrow Requirements and Hold Periods*

Generally, securities held by Principals<sup>3</sup> of the Resulting Issuer will be subject to an Exchange imposed escrow which will restrict the ability of Principals to trade their shares following completion of the RTO, but will not restrict voting rights. The escrow is gradually released over a period of 18 months for Tier 1 Issuers and 36 months for Tier 2 Issuers. The Exchange will generally exempt from escrow those securities issued in connection with a Private Placement to a Person who will be a Principal of the Resulting Issuer where the Private Placement is announced at least five trading days after the news release announcing the RTO Agreement and the purchase price does not exceed the maximum discount to the trading price as permitted by the exchange<sup>4</sup>.

### *Shareholder Approval*

An Issuer must obtain shareholder approval of a RTO before the completion of the transaction. Majority shareholder approval must be obtained at a meeting or by consent. Note that shareholders who are not arm's length to the RTO transaction will be required to abstain from voting.

TSX.V Policy 5.9 incorporates all of National Instrument 61-101 (*Minority Protections in Special Transactions*) by reference, which will impose disinterested shareholder approval requirements and third party valuation requirements in the event that the transaction is deemed to be a related party transaction<sup>5</sup>.

### *Required Documentation*

The following documentation must be filed within 75 days after announcing the RTO. It is important to note that many of these documents would have been already approved in principle by the Exchange as part of the pre-filing conference phase.

- Submission letter to TSX.V;
- Draft Disclosure Document (Form 3D1) if shareholder approval is to be sought at a meeting or draft filing statement where shareholder approval is sought by consent;
- Audited Financial Statements for the preceding 3 years including pro-formas (if applicable);
- Deliver Form 2J – *Securityholder information*;
- Preliminary Sponsor Report;
- List of Material contracts entered into in the preceding 12 months;
- Copies of each expert report and certificate of qualification for experts;
- 12 month business plan (non-resource Issuers) or geological report;
- Valuation or appraisal prepared in support of the value subscribed to the Target Assets;

<sup>3</sup> Generally any director, senior officer, 20% holder or 10% holder with board nomination rights will be considered a "Principal" (see TSX.V Policy 1.1)

<sup>4</sup> Parties wishing to sell shares pursuant to a private placement following the announcement of a proposed RTO should discuss with counsel the formalities that must be met in order to avoid triggering the Exchange Escrow requirements.

<sup>5</sup> "related party transaction" means generally any significant transaction between the Issuer and a person that is a related party of the Issuer at the time the transaction is agreed to, whether or not there are also other parties to the transaction (See NI 61-101 for technical definition).



- Confirmation of Pooling Arrangements (escrow arrangements); and
- Payment of minimum exchange fees.

### *The RTO Disclosure Document*

The Issuer will need to prepare a disclosure document for a proposed RTO transaction which must contain full true and plain disclosure relating to the Issuer and any target Company assuming completion of the transaction. The required disclosure document must be prepared in accordance with the requirement of applicable Securities Laws and the requirements of Form 3D1/3D2.

The disclosure document must be approved by the Exchange prior to delivery to shareholders.

### *Conditional Exchange Approval*

Following the resolution of all material deficiencies to the satisfaction of the Exchange, the Issuer's listing application will be submitted to the Listings Committee for consideration. Upon acceptance the Listings committee will issue a conditional listing approval which will be subject to:

- Shareholder approval;
- Filing the Final Disclosure Document;
- Filing the Final Financial Statements including signed auditors reports;
- Copies of any material contracts not already filed with the Exchange; and
- Consent letters of experts.

Upon receipt of shareholder approval the RTO can be closed.

### *Following the Closing*

Following the closing of the RTO, the Issuer will complete name changes if applicable and any capital reorganizations.

The Issuer will also need to provide Post Approval documents to the Exchange including

- Certified copy of voting results (scrutineer's report);
- Certified copy of the escrow agreement (if required);
- Final executed Sponsor Report; and
- Balance of the applicable Exchange fees.

### *Final Exchange Approval and Commencement of Trading*

Upon the Exchange approving all post-shareholder approval documents the Exchange will issue a Final Exchange bulletin and two days later trading commences on the TSX.V.

At this stage, management of the Resulting Issuer have achieved their goal of an efficient "going public" transaction. This is however not the end of the road, but rather the beginning. Following the exchange listing, the Resulting Issuer will need to comply with all securities regulation applicable in any provinces where it is a reporting issuer. The continuous disclosure and insider reporting requirements incumbent



on issuers and their management are significant and care should be taken to ensure that proper programs are put in place to ensure compliance after the initial listing.

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*To discuss any matters set out herein or for further information on any aspect of Canadian capital market regulation, please contact: Allan J. Ritchie, [aritchie@loonix.com](mailto:aritchie@loonix.com) (416) 748-4754*

# Appendix A

## *Initial Listing Requirements for the TSX Venture Exchange*

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### Initial Listing Requirements for Oil & Gas Companies

Oil & gas companies seeking to undertake an RTO on Tier 1 of the TSX.V will need to demonstrate to the Exchange that the Resulting Issuer will have the following minimum attributes:

- Adequate working capital to carry out the stated work program or execute its business plan for 18 months following the listing and an additional \$200,000 in unallocated funds;
- For exploration companies: \$3,000,000 in reserves of which a minimum of \$1,000,000 must be proved developed reserves and the balance probable reserves and a satisfactory work program that of no less than \$500,000 which can reasonably be expected to increase reserves as recommended in the Issuer's geological report;
- Public distribution of (i) 1,000,000 shares, (ii) 250 shareholders each holding a board lot without resale restrictions, and 20% of all issued and outstanding shares in the hands of public shareholders;
- For producing companies: \$2,000,000 in proved developed reserves; and
- Geological report recommending completion of work program.

Oil & gas companies seeking to undertake an RTO on Tier 2 of the TSX.V will need to demonstrate to the Exchange that the Resulting Issuer will have the following minimum attributes:

- Adequate working capital to carry out the stated work program or execute its business plan for 12 months following the listing and an additional \$100,000 in unallocated funds;
- Public distribution of 500,000 shares with 200 public shareholders each holding a board lot and having no resale restrictions and 20% of all issued and outstanding shares in the hands of public shareholders;
- For exploration companies: either (i) the Issuer has an unproven property with prospects with a minimum of \$1,500,000 allocated by the Issuer to a work program as recommended in a geological report or (ii) Issuer has a joint venture interest and has raised 5,000,000 in a prospectus offering;
- For producing companies: either (i) \$500,000 in proved developed producing reserves or (ii) \$750,000 in proved plus probable reserves plus a satisfactory work program in an amount of no less than \$300,000 if proved developed producing reserves have a value of less than \$500,000 as recommended in the geological report; and
- Geological report recommending completion of work program.

### Initial Listing Requirements for Exploration and Mining Companies

Exploration and mining companies seeking to undertake an RTO on Tier 1 of the TSX.V will need to demonstrate to the Exchange that the Resulting Issuer will have the following minimum attributes:



- Material Interest in a Tier 1 Property<sup>6</sup>;
- \$500,000 work program as recommended by the geological report on the Tier 1 Property;
- Adequate working capital to carry out the stated work program or execute its business plan for 18 months following the listing and an additional \$200,000 in unallocated funds;
- \$2 million in net tangible assets;
- Public distribution of (i) 1,000,000 shares, (ii) 250 shareholders each holding a board lot without resale restrictions, and 20% of all issued and outstanding shares in the hands of public shareholders; and
- Geological report recommending completion of work program.

Exploration and mining companies seeking to undertake an RTO on Tier 2 of the TSX.V will need to demonstrate to the Exchange that the Resulting Issuer will have the following minimum attributes:

- Significant (50%+) Interest in a qualifying property or, at the discretion of the Exchange, a right to earn a significant interest in a qualifying property;
- No less than \$100,000 of exploration expenditures over the preceding two years;
- \$200,000 work program as recommended by the geological report on the qualifying property;
- Adequate working capital to carry out the stated work program for 12 months following the listing and an additional \$100,000 in unallocated funds;
- Public distribution: (i) 500,000 shares, (ii) 200 shareholders each holding a board lot without resale restrictions, and 20% of all issued and outstanding shares in the hands of public shareholders; and
- Geological Report recommending completion of work program.
- Management and board should have adequate experience and technical expertise relevant to the company's business as well as adequate public company experience. Companies are required to have at least two independent directors.

### Initial Listing Requirements for Industrial, Technology, or Life Sciences Companies

Industrial, Technology or Life Sciences companies seeking to undertake an RTO on Tier 1 of the TSX.V will need to demonstrate to the Exchange that the Resulting Issuer will have the following minimum attributes:

- \$5,000,000 Net Tangible Assets or \$5,000,000 in revenue;
- Issuer has significant Interest in business or primary asset used to carry on business;
- history of operations or validation of business;
- (i) adequate Working Capital and Financial Resources to execute business plan for 18 months following listing and (ii) \$200,000 in unallocated funds;

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<sup>6</sup> "Tier 1 Property" means: (a) in the case of a mining Issuer, a property with substantial geological merit that meets all of the following criteria: (i) a property in which the Issuer holds a material interest; (ii) a property on which previous exploration, including detailed surface geological, geophysical and/or geochemical surveying and at least an initial phase of drilling or other detailed sampling (such as trench or underground opening sampling), has been completed; (iii) drilling or other detailed sampling on the property has identified potentially economic or economic mineralization; and (iv) a Geological Report recommends a minimum \$500,000 Phase 1 drilling (or other form of detailed sampling) program for the property based on the merits of previous exploration results; or an independent, positive, feasibility study demonstrates that the property is capable of generating positive cash flow from ongoing operations.



- (i) Public Float of 1,000,000 shares, (ii) 250 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares and (iii) 20% of issued and outstanding shares in the hands of Public Shareholders; and
- if no revenue, two year management plan demonstrating reasonable likelihood of revenue within 24 months.

Industrial, Technology or Life Sciences companies seeking to undertake an RTO on Tier 2 of the TSX.V will need to demonstrate to the Exchange that the Resulting Issuer will have the following minimum attributes:

- \$750,000 net tangible assets or \$500,000 in revenue or \$2,000,000 arm's length financing;
- Issuer has significant interest in business or primary asset used to carry on business;
- history of operations or validation of business;
- (i) adequate Working Capital and Financial Resources to execute business plan for 12 months following listing and (ii) \$100,000 in unallocated funds;
- (i) Public Float of 500,000 shares, (ii) 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares and (iii) 20% of issued and outstanding shares in the hands of Public Shareholders; and
- if no revenue, two year management plan demonstrating reasonable likelihood of revenue within 24 months.

#### Initial Listing Requirements for Real Estate or Investment Companies

Real Estate or Investment companies seeking to undertake an RTO on Tier 1 of the TSX.V will need to demonstrate to the Exchange that the Resulting Issuer will have the following minimum attributes:

- Real Estates: \$5,000,000 net tangible assets;
- Investment \$10,000,000 net tangible assets;
- Real Estate Issuers must have a Significant Interest in real property;
- Investment companies must have a disclosed investment policy;
- (i) adequate Working Capital and Financial Resources to execute business plan for 18 months following listing and (ii) \$200,000 in unallocated funds;
- (i) Public Distribution of 1,000,000 shares, (ii) 250 public shareholders each holding a Board Lot and having no Resale Restrictions on their shares and (iii) 20% of issued and outstanding shares in the hands of public shareholders;

Real Estate or Investment companies seeking to undertake an RTO on Tier 2 of the TSX.V will need to demonstrate to the Exchange that the Resulting Issuer will have the following minimum attributes:

- \$2,000,000 net tangible assets or \$3,000,000 in arm's length financing;
- Real estate Issuers must have a significant interest in real property;
- Investment companies must have a (i) disclosed investment policy and (ii) 50% of available funds must be allocated to at least 2 specific investments;



- (i) adequate Working Capital and Financial Resources to execute business plan for 12 months following listing and (ii) \$100,000 in unallocated funds; and
- (i) Public Float of 500,000 shares, (ii) 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares and (iii) 20% of issued and outstanding shares in the hands of Public Shareholders.