

A Guide to Capital Pool Companies and Qualifying Transactions Resulting in Reverse Take-Overs

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INTRODUCTION

The most frequently used and preferred method of going public on the TSX Venture Exchange is by merging your private company with a Capital Pool Company (or CPC). A CPC is a special purpose company which is created and listed under the unique and highly successful Capital Pool Company (CPC) program. The CPC program has been in existence for over 25 years and has been widely used to bring to market more than 2,300 companies from the full range of sectors including natural resources, oil and gas, high tech, clean tech, life sciences, industrial and manufacturing.

The CPC program has experienced its tremendous success because it is an efficient process for going public while affording greater certainty of success for companies raising capital earlier in the process as compared to traditional IPOs which require companies to incur substantial upfront costs before marketing the offering to prospective investors. The program has sufficient unique regulations to ensure it is a safe place for investors to participate in early stage public companies.

Let's take a look at how CPC's are created and listed on the Exchange, and then how a private company may complete a going public transaction by merging with the CPC (also, known as a Qualifying Transaction).

The process comprises two stages. First, we have the formation, public offering and listing of a new CPC public vehicle or shell company. CPCs are typically created by experienced investors and public company professionals having an interest in assisting private operating businesses in raising capital and going public. Less often, the CPC is formed by the principals of the operating business sought to be taken public. The second stage consists of a reverse merger of the operating business into the CPC. This is known as the "Qualifying Transaction".

FORMATION OF THE CPC AND ISSUING SEED SHARES TO THE CPC FOUNDERS

The Founders

The CPC may be created by a combination of individuals with appropriate business and public company experience who wish to assist entrepreneurs in going public. Alternatively (and less frequently the case), it may be created by an entrepreneur who seeks to complete a going public transaction for his privately held company. Either way, the founders of the CPC are typically a group of at least 3 individuals with sufficient business and public company experience who incorporate the CPC and subscribe for CPC shares in the minimum amount of the greater of \$100,000 and 5% of the total funds raised. These individuals receive Seed Shares in exchange for their cash contributions.

Seed Shares - Pricing

Seed Shares include all securities issued by the CPC prior to its initial public offering (IPO). The minimum price per share at which Seed Shares may be issued is the greater of \$0.05 and 50% of the issue price of shares to be offered to the public under the CPC's IPO (IPO Shares).

Typically, Seed Shares are issued at either \$0.10 or \$0.15 per share and IPO Shares are issued at \$0.20 or \$0.30 per share.

The minimum total amount of Seed Capital raised by the CPC through the issuance of Seed Shares must equal or exceed the greater of (i) \$100,000 and (ii) 5% of the aggregate of all proceeds received by the CPC on the date of its final Prospectus from the issuance of treasury securities, including proceeds from the issuance of:

- Seed Shares,
- any Private Placement securities, and
- IPO Shares.

The amount of Seed Share Capital raised through Seed Shares issued at less than the IPO price may not exceed \$500,000.

The minimum price at which the IPO Shares may be issued is \$0.10. Only a single class of common shares may be issued as Seed Shares and IPO Shares.

Seed Shares – Ownership by Directors, Officers and Holding Companies

The minimum Seed Capital (ie. \$100,000) must be contributed by directors and officers of the CPC or trusts or holding companies controlled by these directors or officers. Control can be demonstrated by ownership of 50% or more of the outstanding voting securities or in the case of a trust, beneficial interest in the trust. Seed Capital contributions made by trusts or holding companies will be pro rated on the basis of the percentage of ownership or beneficial interest held by the applicable directors or officers or immediate family members of such directors and officers. Each director and officer of the CPC or their respective trust (or holding companies) must subscribe for Seed Shares for an aggregate consideration of at least \$5,000. Seed Share subscriptions by others will only be permitted after the initial \$100,000 has been contributed.

Companies cannot hold Seed Shares unless the name of each individual who directly or indirectly beneficially owns, controls or directs these securities is disclosed to the Exchange. If the beneficial owner of Seed Shares is not an individual, the name of the individual or individuals beneficially owning, controlling or directing the holding company or companies that hold the Seed Shares of the CPC must be disclosed.

Where a company that holds Seed Shares is owned by more than one individual and where one or more of the individuals owns less than 50% of the outstanding voting shares of the holding company, the Exchange will require a pre-filing waiver to allow for non-compliance with the “control” requirement. Of late, the Exchange has been reluctant to grant such waivers.

Investor Relations and Market Making

At the time of listing and until Completion of the Qualifying Transaction, neither the CPC nor any other party on behalf of the CPC may engage the services of any Person to provide Investor Relations Activities, promotional or market-making services.

THE INITIAL PUBLIC OFFERING

Once the CPC has been incorporated and organized and the minimum level of Seed Share Capital has been invested, the CPC may proceed to the IPO stage. The first item of business will be for the CPC to engage an investment dealer to serve as “best efforts” agent in connection with the IPO of the CPC. Typically, the agent will be responsible for raising all of the proceeds of the IPO but often will also rely upon (or permit) the CPC’s founders to supply a list of names of interested parties, or the “President’s List”, to purchase shares under the IPO.

IPO – Size

The gross proceeds of the IPO to the CPC must be equal to or greater than \$200,000 but may not exceed \$4,750,000. The maximum aggregate gross proceeds to the treasury of the CPC from the issuance of IPO Shares and all Seed Shares and shares issued pursuant to a Private Placement may not exceed \$5,000,000.

Often parties wish to maintain the minimum amounts for both the Seed Share Capital and the size of the IPO. If the parties maintain both minimums, the gross proceeds to the CPC would be \$300,000 (comprising \$100,000 in Seed Capital and \$200,000 of gross proceeds of the IPO). While these amounts are compliant with the minimum requirements, the Exchange nevertheless may take issue with the total gross amount being raised unless the CPC is able to satisfy the Exchange that it is raising sufficient funds to cover expenses over 24 months following completion of the IPO. In these circumstances, the Exchange will require the CPC to provide a reasonable projection of expenses to determine the viability of the CPC raising only the minimum amounts.

Post-IPO Distribution

Upon completion of its IPO, the CPC must have at least 1,000,000 of its issued and outstanding common shares in the public float¹. The CPC must have a minimum of 200 shareholders with each shareholder beneficially owning at least 1,000 common shares free of resale restrictions exclusive of any common shares held by non arm’s length parties to the CPC. The maximum number of common shares which may be directly or indirectly purchased by any one purchaser pursuant to the IPO is 2% of the IPO Shares. Notwithstanding this, the maximum number of common shares that may be directly or indirectly purchased pursuant to the IPO by any purchaser, together with that purchaser’s associates and affiliates, is 4% of the IPO Shares.

Other than IPO Shares, the only additional securities that may be issued and outstanding are Seed Shares, stock options as permitted by the Exchange’s rules, options granted to the agent for the IPO, any securities issued pursuant to a permitted Private Placement, and any securities issued pursuant to the Qualifying Transaction.

Restrictions on Proceeds of Seed Share Issuances and IPO

The Exchange rules impose restrictions on the use of the funds raised from the issuances of Seed Shares and the sale of shares under an IPO. Broadly speaking, the proceeds of the Seed Share issuances and the IPO may be used for the purpose of identifying and evaluating assets or businesses with a view to completing a Qualifying Transaction. Prior to completion of the Qualifying Transaction, up to the lesser of 30% of the gross proceeds from the sale of securities issued by a CPC and \$210,000 may be used for purposes other than the identification and

¹ The public float consists of shares of the CPC held by public shareholders and not subject to resale restrictions.

evaluation of assets or businesses, such as listing and filing fees, legal and audit expenses relating to the IPO and general and administrative expenses.

Parties should refer to the applicable rules of the Exchange or consult their legal counsel to determine whether any proposed expenses are permitted.

THE QUALIFYING TRANSACTION - A REVERSE TAKE-OVER

Once the CPC has completed its IPO and become listed on the Exchange, it may negotiate and enter into a merger transaction with a privately held company or business, referred to as a Qualifying Transaction.

The CPC must complete a Qualifying Transaction within 24 months after the date of listing, failing which the CPC will be delisted from the Exchange. A Qualifying Transaction is a transaction where a CPC acquires Significant Assets, other than cash. Significant Assets are one or more assets or businesses which, when purchased, optioned or otherwise acquired by the CPC, together with any other concurrent transactions, will result in the CPC meeting the Minimum Listing Requirements of the Exchange (set forth at the end of this guide).

A Qualifying Transaction generally results in a “reverse take over” of the CPC (i.e. the owners of the Significant Assets will control the CPC as a result of the Qualifying Transaction).

Structure of the Qualifying Transaction

The Qualifying Transaction may be structured as any one or more of the following:

- a) *Share for share exchange.* Shareholders of the private company transfer their shares to the CPC and in exchange the CPC issues a number of new shares to them based upon an agreed upon valuation.
- b) *Amalgamation.* The private company amalgamates with the CPC to form one corporation. If the CPC and the private company are not incorporated in the same jurisdiction, the private company will need to be redomiciled to the jurisdiction of the CPC through a process referred to as a “continuance”.
- c) *Plan of Arrangement.* Where the capital structure of the private company is complex and/or there are other unique considerations which may not be addressed through the more simpler share for share exchange or an amalgamation, a Plan of Arrangement may be used for the merger. Among other things, this involves court approval and shareholder approval.
- d) *Asset Purchase.* The CPC purchases assets from a third party in exchange for cash or securities of the CPC or a combination of the two.

In each of these forms of Qualifying Transactions, the shareholders of the private company, either by agreement between the shareholders and the CPC or by agreement between the CPC and the private company, exchange their shares of the private company for securities of the CPC. The result is that the private company becomes a wholly-owned subsidiary of the CPC or merges with the CPC to form one corporation, and the former private company shareholders end up with control of the company formed as a result of the transaction (Resulting Issuer).

Qualifying Transaction with a Concurrent Financing

The Qualifying Transaction may be, as it often is, structured so that it is completed concurrently with a financing. A common method of financing is for the private company to raise funds by way of private placements to “accredited investors”, which are timed to be completed concurrently with the completion of the Qualifying Transaction. To enable some manoeuvrability, private companies often close their private placements in advance of the Qualifying Transaction in escrow (not to be confused with the share related escrow discussed a little later in this guide) subject to the proviso that the funds will be released from escrow to the company upon completion of the Qualifying Transaction on pre-determined terms by a designated date. Failing the fulfillment of the escrow conditions, the funds are required to be returned to the investors. This allows the private company to pursue financing while negotiating and completing the Qualifying Transaction. Alternatively, the principals of the CPC may take on the responsibility of raising the required financing and will arrange for the financing to be raised in the CPC which may also be completed in escrow subject to the same escrow release conditions.

The advantage of the funds being raised in the private company as opposed to the CPC is that the transaction may be structured in a manner that allows investors to ultimately receive shares of the CPC that are free from the 4-month statutory and TSX-V resale restrictions that otherwise apply to shares issued under a private placement.

The Resulting Issuer and Minimum Listing Requirements

The Resulting Issuer (which is essentially the new public company formed through the merger or acquisition by the CPC with a private company pursuant to the Qualifying Transaction) must satisfy the Exchange’s minimum listing requirements for the particular industry sector in either Tier 1 or Tier 2. The minimum listing requirements will include the following where relevant to the appropriate industry sector: cash flows, earnings, revenues, property reserves, working capital and financial resources, prior expenditures, etc.

Additionally, following the completion of the Qualifying Transaction, the Resulting Issuer must demonstrate sufficient distribution, market cap and float as follows:

- a) \$1,000,000 held by Public Shareholders
- b) 1,000,000 free trading public shares
- c) 200 Public Shareholders with a Board Lot and no Resale Restrictions
- d) 10% Public Float
- e) 20% of issued and outstanding shares in the hands of Public Shareholders

Board Composition of the Resulting Issuer

Given that the principals of the private company typically end up with control of the Resulting Issuer upon completion of the Qualifying Transaction, they will need to turn their minds to the composition of the board of directors of the company.

There are several considerations in selecting an appropriate board which should include members with sufficient and relevant industry experience, as well as sufficient listed public company experience (specifically on recognized North American exchanges).

If the Resulting Issuer is going to remain listed on the TSX Venture Exchange (and not migrate to the TSX), it will have less stringent board composition requirements (than those of the TSX) as far as independent directors are concerned. Most Canadian corporate statutes require a public corporation to have an audit committee consisting of at least 3 members each of whom must be a director, with the added requirement that a majority of the audit committee members may not be officers or employees of the issuer or any affiliate of the issuer. Apart from this, there are no other requirements for independence for the directors of a TSX-V listed issuer.

On the other hand, should the Resulting Issuer migrate to the TSX upon or shortly after completion of the Qualifying Transaction, its audit committee will need to meet the independence and financial literacy tests for non-venture company boards under National Instrument 52-110. These provisions require that all of the members of the audit committee must be “independent” and “financially literate” as those terms are defined in the instrument.

In addition, the TSX-V will require that the majority of the directors and senior officers of the Resulting Issuer must be:

- i) residents of Canada or the United States; or
- ii) individuals with demonstrated positive associations as directors or officers with public companies subject to a regulatory regime comparable to that applicable to Canadian listed companies.

Agreement in Principle and Proposed QTs

In certain circumstances, the parties may desire to create a CPC with a specific transaction and target company in mind. In this case, the parties must be cognizant of the Exchange rule that prohibits a CPC from having an Agreement in Principle prior to its IPO. An Agreement in Principle is an agreement with regard to a Qualifying Transaction, which spells out all of the fundamental terms of the deal including the assets or business to be acquired, the purchase price or value to be paid and the means through which the price is to be paid.

Prior to its IPO, a CPC may, however, enter into an agreement which has material conditions the satisfaction of which depends on third parties and which is beyond the reasonable control of the non-arm's length parties to the CPC or the non-arm's length parties to the Qualifying Transaction. These conditions may include a best efforts financing condition which is unfulfilled, significant due diligence which remains incomplete and the purchase price or consideration to be paid under the transaction has not been determined or the method for such determination has not been agreed upon.

While it is not common, a CPC may be created having identified a proposed target for its Qualifying Transaction prior to its IPO provided that an Agreement in Principle does not exist. In such circumstances, the prospectus to be filed for the CPC's IPO may disclose some information about the private company that is the intended target for the Qualifying Transaction. This may include the name of the company, the nature of its business and some financial information such as revenues.

Where the principals of the CPC and the private company overlap such that the Qualifying Transaction is classified as a non-arm's length transaction, the CPC will be required to obtain approval for the Qualifying Transaction from its disinterested shareholders. This would take place at a special meeting of shareholders.

Exchange Approval for the Qualifying Transaction; Disclosure Document

The CPC is required to apply for and obtain acceptance from the Exchange of the proposed Qualifying Transaction prior to completing the transaction. Among other things, the CPC (working with legal counsel to the CPC and the private company) will be required to prepare and submit to the Exchange a disclosure document in connection with the proposed Qualifying Transaction. The disclosure document is required to be in the form of one of the following: (i) a proxy information circular for Qualifying Transactions requiring approval by the shareholders of the CPC, (ii) a filing statement, or (iii) or a prospectus where the Qualifying Transaction involves non-mining and non-oil and gas assets situated outside Canada and the United States (where the CPC is a reporting issuer in Ontario). All three disclosure documents contain the substantially the same level and degree of information concerning the Qualifying Transaction.

In preparing the appropriate disclosure document, you will need to have prepared, and include, audited financial statements, together with Management's Discussion and Analysis, for the target company. You will also need to include pro forma financial statements. The Exchange will also require a statement (which is not included in the disclosure document) showing sources and uses of funds for a period of 18 to 24 months. If the target company or assets are in the oil and gas or mineral sectors, then a current technical report, prepared in accordance with the applicable securities instrument, must also be submitted and incorporated in the disclosure document.

Finally, though not part of the disclosure document, the company must submit a Personal Information Form for each new director and officer and 10% shareholder of the Resulting Issuer. The Exchange uses the information set forth in the PIF to conduct background checks on the individual. Where any of the individuals submitting a PIF is not resident in Canada or the United States, the Exchange requires greater processing time in order to have the background checks conducted in the foreign jurisdiction through an external agency.

Finally, in certain circumstances, the Exchange may require a sponsor to conduct due diligence on the transaction and the disclosure document and to submit to the Exchange a sponsor report on the transaction. The sponsor must be a member broker firm of the Toronto Stock Exchange. This ensures that a qualified third party has reviewed the transaction to ensure compliance with the Exchange's requirements including matters such as the reasonableness of the share exchange ratios.

Sponsorship is not required where the company completes a brokered financing of at least \$500,000 in connection with the transaction.

VALUING THE PRIVATE COMPANY

In negotiating the Qualifying Transaction and any concurrent financing, the principals of the private company will need to arrive at an acceptable valuation. While the investors and any investment bank involved in the transaction will propose a valuation in the course of negotiating the Qualifying Transaction, the TSX-V rules must be complied with in order to obtain Exchange approval of the Qualifying Transaction.

Establishing a value satisfactory to the Exchange is also important because it will determine which (if any) of the shares that are issued by the CPC under the Qualifying Transaction to the Private Company principals will have a shorter escrow of 18 or 36 months. The Exchange will require value to be established through one of a number of methods. The following are some of the more commonly used methods of establishing a valuation:

- a) A formal valuation or appraisal prepared by a qualified and independent party. In the case of resource properties, this may include a Qualified Person, as defined in National Instrument 43-101;

- b) In the case of oil and gas properties, a Geological Report based on constant dollar pricing, discounted at 15% and probable reserves risked a further 50%;
- c) In the case of mining properties that may be classified as Tier 1 and Tier 2 Properties, (i) deferred expenditures incurred within the five previous years for exploration or development of the property on which the issuer intends to conduct a recommended work program in the next 12 months and, if applicable, such property is the Qualifying Property forming the basis for the issuer's listing; or (ii) a valuation report prepared in accordance with CIMV al and subject to the valuation methods and guidelines of the TSX-V's Appendix 3G – Valuation Standards and Guidelines for Mineral Exploration Properties;
- d) For start-up industrial or technology issuers, deferred expenditures or expenses (excluding general and administrative expenses) incurred within the five previous years which have contributed to or can reasonably be expected to contribute to the future operations of the issuer and which are supported by audited financial statements or an audited statement of costs (note that valuations will not generally be accepted for issuers that have not yet generated significant revenue);
- e) for research and development issuers, deferred expenditures (excluding general and administrative costs) incurred within the five previous years, as evidenced by audited financial statements or an audited statement of costs, which have contributed to or can reasonably be expected to contribute to the development of the product or technology for which the issuer intends to conduct a recommended research and development program in the next 12 months and, if applicable, which constitutes the basis for the issuer's listing; and
- f) the valuation of the private company that is established pursuant to any concurrent financing.

ESCROW

Depositing Pre-QT Shares in Escrow

All of the following shares of the CPC must be deposited in escrow and held by a third party escrow agent, pursuant to the CPC escrow agreement ("CPC Escrow") prepared in accordance with the Exchange's prescribed form:

- a) all Seed Shares issued at a price lower than the issue price of the IPO Shares;
- b) all Seed Shares, IPO Shares and any securities acquired from treasury after the IPO but before the Exchange grants approval of the proposed Qualifying Transaction (subject to certain exceptions) which are, directly or indirectly, beneficially owned or controlled by Non Arm's Length Parties of the CPC (as determined post IPO);
- c) all securities acquired by a Control Person in the secondary market prior to Completion of the Qualifying Transaction; and
- d) all Seed Shares purchased by a member of the Aggregate Pro Group.

Shares required to be deposited into a CPC Escrow will be released from the escrow 36 months (or 18 months for a Tier 1 Issuer) following the date of approval of the Qualifying Transaction by the Exchange.

How are shares that are issued under a Qualifying Transaction released from Escrow?

All securities held by Principals² of the proposed Resulting Issuer are required to be escrowed in either a Value Escrow or a Surplus Escrow.

A Value Escrow Agreement will apply to the Principals of the Resulting Issuer if you can support the valuation of the target company using a method acceptable to the Exchange. There are several stated valuation methods acceptable to the Exchange. See “4. Valuing the Private Company”, above. Securities escrowed under Value Escrow Agreements are released from escrow as follows:

Value Escrow

Tier 1 Issuers		Tier 2 Issuers (excluding CPC's)	
%	Release Date	%	Release Date
25%	at the time of Exchange Bulletin	10%	at the time of Exchange Bulletin
25%	6 months from Exchange Bulletin	15%	6 months from Exchange Bulletin
25%	12 months from Exchange Bulletin	15%	12 months from Exchange Bulletin
25%	18 months from Exchange Bulletin	15%	18 months from Exchange Bulletin
		15%	24 months from Exchange Bulletin
		15%	30 months from Exchange Bulletin
		15%	36 months from Exchange Bulletin

All securities issued as consideration for an asset, business, property (or interest in property), services or debt settlement that do not constitute Value Securities are considered Surplus Securities.

Securities escrowed under Surplus Security Escrow Agreements are released from escrow as follows:

Surplus Escrow

Tier 1 Issuers		Tier 2 Issuers (excluding CPC's)	
%	Release Date	%	Release Date
10%	upon Exchange Bulletin	5%	upon Exchange Bulletin
20%	6 months from Exchange Bulletin	5%	6 months from Exchange Bulletin
30%	12 months from Exchange Bulletin	10%	12 months from Exchange Bulletin
40%	18 months from Exchange Bulletin	10%	18 months from Exchange Bulletin
		15%	24 months from Exchange Bulletin
		15%	30 months from Exchange Bulletin
		40%	36 months from Exchange Bulletin

² A Principal is any director or officer of the company (or subsidiary) or any holder of more than 20% of the outstanding shares or any holder of more than 10% of the outstanding shares of the company who has elected or appointed or who has the right to elect or appoint one or more directors or officers of the company.

SEED SHARE RESALE RESTRICTIONS ON NON-PRINCIPAL SECURITIES

Seed Share Resale Restrictions may apply to securities issued to a person which is not a Principal depending on the purchase price at which the person receives the securities of the CPC relative to the transaction price of the Qualifying Transaction.

The purchase price of the Seed Shares, as well as the time of their purchase relative to the date the Exchange issues conditional acceptance for the Qualifying Transaction, determines the length of any Seed Share Resale Restriction.

The Seed Share Resale Restrictions do not replace any hold periods that are imposed by Securities Laws and are in addition to, and run concurrently with statutory hold periods, but they do not apply to Seed Shares issued pursuant to a CPC IPO.

PRINCIPAL STEPS AND TIMELINE - QUALIFYING TRANSACTIONS

The principal steps to a Qualifying Transaction include:

- negotiation of business combination agreement between the CPC and the owners of the Significant Assets;
- if required, shareholder approval of the shareholders of the CPC;
- if applicable, concurrent financing;
- preparation of a comprehensive disclosure document (e.g. information circular/filing statement) that will be filed on sedar.com (following TSXV review);
- TSXV approval.

While a number of the steps can proceed concurrently, the timeline to completion generally spans three to five months.

FOREIGN COMPANIES

Foreign companies seeking to go public in Canada may take advantage of the CPC program.

APPENDIX

TSX Venture Exchange Minimum Listing Requirements

The TSX-V is focused on emerging companies seeking access to public venture capital. The minimum distribution requirements for the TSX-V are a public float of 500,000 shares, 200 independent public shareholders, each holding one board lot or more and having no resale restrictions, and at least 20% of the issued and outstanding shares in the hands of public shareholders. Your underwriters will assist you in meeting the distribution requirements. It is important that the underwriters you select have retail distribution **capabilities**.

The TSX-V has specific listing requirements tailored by industry and stage of development. Issuers are classified into Tier 1 and Tier 2 companies. Generally, Tier 2 companies need to comply with slightly less stringent requirements in respect of assets or revenues, working capital and financial resources, and public distribution.

Examples of the TSX-V initial listing requirements include:

Industrial or Technology or Life Sciences

	Tier 1 Companies	Tier 2 Companies
Net Tangible Assets or Revenue	\$5,000,000 net tangible assets or \$5,000,000 revenue	\$750,000 net tangible assets or \$500,000 in revenue or \$2,000,000 arm's length financing
Property or Reserves	significant interest in business or primary asset used to carry on business	significant interest in business or primary asset used to carry on business
Prior Expenditures and Work Program	history of operations or validation of business	history of operations or validation of business
Working Capital and Financial Resources	adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing and \$200,000 in unallocated funds	adequate working capital and financial resources to carry out stated work program or execute business plan for 12 months following listing and \$100,000 in unallocated funds
Public Distribution	public float of 1,000,000 shares; 250 public shareholders each holding a board lot and having no resale restrictions and 20% of issued and outstanding shares in the hands of public shareholders	public float of 1,000,000 shares; 250 public shareholders each holding a board lot and having no resale restrictions and 20% of issued and outstanding shares in the hands of public shareholders
Other Criteria	if no revenue, two year management plan demonstrating reasonable likelihood of revenue within 24 months (sponsor report if required)	if no revenue, two year management plan demonstrating reasonable likelihood of revenue within 24 months (sponsor report if required)

Mining Companies

	Tier 1 Companies	Tier 2 Companies
Net Tangible Assets or Revenue	\$2,000,000 net tangible assets	no requirement
Property or Reserves	material interest in Tier 1 property	significant interest in qualifying property, or at the discretion of the TSX-V, a right to earn a significant interest in the qualifying property
Prior Expenditures and Work Program	a work program with an initial phase of not less than \$500,000 as recommended in a geological report and satisfaction of other Tier 1 property requirements	sufficient evidence of no less than \$100,000 of approved expenditures by the issuer on the qualifying property within 36 months prior to the listing and a work program with an initial phase of no less than \$200,000 as recommended in a geological report.
Working Capital and Financial Resources	adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing and \$200,000 in unallocated funds	adequate working capital and financial resources to carry out stated work program or execute business plan for 12 months following listing and \$100,000 in unallocated funds
Public Distribution	public float of 1,000,000 shares; 250 public shareholders each holding a board lot and having no resale restrictions and 20% of issued and outstanding shares in the hands of public shareholders	public float of 500,000 shares; 200 public shareholders each holding a board lot and having no resale restrictions and 20% of issued and outstanding shares in the hands of public shareholders
Other Criteria	geological report recommending completion of work program (sponsor report if required)	geological report recommending completion of work program (sponsor report if required)

Oil & Gas Companies (exploration, producing or reserves)

	Tier 1 Companies	Tier 2 Companies
Net Tangible Assets or Revenue	no requirement	no requirement
Property or Reserves	<p>(a) exploration: \$3,000,000 in reserves of which a minimum of \$1,000,000 must be proved developed reserves and the balance probable reserves</p> <p>(b) producing: \$2,000,000 in proved developed reserves</p>	<p>(a) exploration: either issuer has an unproven property with prospects, or has joint venture interests and \$5,000,000 raised by prospectus offering</p> <p>(b) reserves: either: \$500,000 in proved developed producing reserves or \$750,000 in proved plus probable reserves</p>
Prior Expenditures and Work Program	<p>(a) exploration: satisfactory work program (i) of no less than \$500,000 and (ii) which can be reasonably expected to increase reserves as recommended in a geological Report</p> <p>(b) producing: no requirement</p>	<p>(a) exploration: minimum of \$1,500,000 allocated by issuer to a work program as recommended in a geological report except where issuer has a joint venture interest and has raised \$5,000,000 in prospectus offering</p> <p>(b) reserves: (i) satisfactory work program and (ii) in an amount of not less than \$300,000 if proved developed producing reserves have a value of less than \$500,000, as recommended in a geological report</p>

**Working Capital and
Financial Resources**

adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing and \$200,000 in unallocated funds

Public Distribution

public float of 1,000,000 shares; 250 public shareholders each holding a board lot and having no resale restrictions and 20% of issued and outstanding shares in the hands of public shareholders

Other Criteria

Geological report recommending completion of work program (sponsor report if required)

Geological report recommending completion of work program (sponsor report if required)

Real Estate or Investment

	Tier 1 Companies	Tier 2 Companies
Net Tangible Assets or Revenue	real estate: \$5,000,000 net tangible assets investment: \$10,000,000 net tangible assets	\$2,000,000 net tangible assets or \$3,000,000 arm's length financing
Property or Reserves	real estate: significant interest in real property investment: no requirement	real estate: significant interest in real property investment: no requirement
Prior Expenditures and Work Program	real estate: no requirement investment: disclosed investment policy	real estate: no requirement investment: disclosed investment policy and 50% of available funds must be allocated to at least 2 specific investments
Working Capital and Financial Resources	adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing and \$200,000 in unallocated funds	adequate working capital and financial resources to carry out stated work program or execute business plan for 12 months following listing and \$100,000 in unallocated funds
Public Distribution	public float of 1,000,000 shares; 250 public shareholders each holding a board lot and having no resale restrictions and 20% of issued and outstanding shares in the hands of public shareholders	public float of 500,000 shares; 200 public shareholders each holding a board lot and having no resale restrictions and 20% of issued and outstanding shares in the hands of public shareholders
Other Criteria	sponsor report if required	

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