going public in Canada

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Are you considering listing your business on a Canadian stock exchange?

To help you make the right decision for your company, the following is a summary of some of the options available when publicly listing a company in Canada.

The most important question to consider is why your company wants to go public. What is your company trying to achieve through this process? Will the benefits outweigh the costs? What are the factors involved in successful international financial transactions?

To help resolve these issues, this paper will briefly:

- walk you through the process for going public on Canada's exchanges;
- review your options; and
- outline how long it will take.

While this paper will familiarize you with some basic issues, we recommend that you review your company's unique goals and circumstances with legal, accounting and financial advisors.

about Canada's exchanges

In Canada there are two exchanges: the TSX Venture Exchange (TSXV) and Toronto Stock Exchange (TSX).

The TSXV is Canada's national exchange for venture-class securities. Many "junior" or early-stage businesses are listed on this exchange until they gain a solid foothold in public markets, when they switch to a senior exchange.

The TSX, recognized worldwide as one of North America's premier stock exchanges, is known for its high standards of fairness and innovative trading approaches. The TSX offers listed companies a range of benefits including liquidity, visibility and analyst coverage.

methods of going public on the TSXV

The four methods by which an operating company can go public on the TSXV are:

1. a reverse takeover transaction (known as an RTO);
2. an initial public offering (known as an IPO);
3. a capital pool corporation (known as a CPC) qualifying transaction; and
4. listing of an existing company without conducting an IPO.

Each of these methods and some of their respective advantages and disadvantages are explained below.

As a preliminary matter, a sponsor may be appointed for any listing on the TSXV. A sponsor is an underwriter who is a member of the TSXV.

1. reverse takeover

An RTO occurs when a public shell company acquires a private company or the assets of a private company, where the owners of the private company (the "Owners") become the majority owners of the shares of the publicly-listed company. Throughout this paper, the term "Owners" refers to owners of a private company who intend to take the private company "public".

The shell company will typically have few, if any, assets, and preferably no liabilities. In an RTO involving an international company, it is normally recommended that a controlling interest in the existing shell company be acquired by a cash payment. Prices for shell companies tend to fluctuate widely, often with little apparent reason.

As a practical matter, most shell companies will be listed on the NEX, a separate board of the TSXV for inactive companies created in 2003 for issuers that fall below TSXV's ongoing listing standards. Prior to the formation of the NEX, companies that fell below TSXV listing standards were designated "inactive" and given 18 months to meet the standards or face delisting. With the NEX, companies are relieved of the pressure of a delisting deadline and benefit from being a potential takeover target for RTOs.

Once the Owners have obtained control of the shell company, the Owners move their existing company's assets into the shell company (the "Acquisition"). This may be achieved through a number of means, including by merger of the two companies, asset acquisition or share acquisition. Additionally, the Owners may want to move the shell company out of Canada and into a jurisdiction where the tax treatment is more favourable (the "Continuation") before completing the Acquisition. If the existing company's assets and operations will be located outside of Canada, Bermuda is a jurisdiction of choice for many North American listed companies.

Both the Acquisition and the Continuation require the preparation of materials for an extraordinary general meeting of shareholders to approve these transactions. These materials must provide prospectus level disclosure and are, therefore, quite detailed and complex. If a Continuation is involved, the process will include the retention of counsel in the destination jurisdiction and the drafting of new constating documents for the shell company. This process can be expensive and should not be undertaken lightly. The materials will be subjected to review by the TSXV and your sponsor. The preparation and vetting of these materials will take a fairly significant amount of time. Additionally, under Canadian securities laws, extraordinary meetings of shareholders are subject to a minimum 60-day lead-up period.

Partly as a result of the expenses associated with an RTO and partly to increase distribution, many companies conduct a small offering as part of the RTO process. The size of the offering depends on a number of factors, most important of which are the ability of the underwriter to sell the offering and the need of the company for working capital. It is, of course, open to the company to do a major financing at this time to fund a project or other undertaking. As the Owner's sponsor normally acts as the underwriter for the offering, it is important for the Owners to identify their capital needs at an early stage. This will act as an added criteria in selecting the Owner's sponsor.

The time required to complete an RTO varies, but it usually takes a minimum of four months to a maximum of six months from the time the Owners identify or acquire the shell company. The key determining factors in respect of time frames have to do with statutory requirements for the holding of shareholder meetings, the time required by regulators for review of materials (an issue over which the company has little control) and the receptiveness of the market to any proposed financing.

The key advantages to an RTO are as follows:

a. the Owners start out with an existing shareholder base that assists in dealing with liquidity issues that may arise in the future;

b. the shell company may have pre-existing relationships with investment dealers, investors and past management that the Owners may be able to leverage;

c. the Owners can obtain a listing more quickly, and, if their company is not in immediate need of funds, the Owners can usually find a sponsor without difficulty, something that is not necessarily the case with an IPO; and

d. the Owners will deal mainly with a stock exchange rather than a securities commission. Analysts at stock exchanges in North America tend to be more "business-oriented" and more familiar with offshore transactions than their counterparts at securities commissions. As a result, the Owners should receive better and faster service.

There are several disadvantages to an RTO:

a. given the cost of the purchase of the listed shell company, the total cost of the project may be greater than an IPO with a new company;

b. if the Owners conduct an RTO of a company that is incorporated in Canada and want to continue that company offshore, that Continuation procedure will add cost to the transaction and may have potential tax consequences;

c. in addition to the cash cost of acquiring the shell company, the Owners will suffer immediate dilution to their business interest as a result of acquiring a pre-existing company with shares outstanding; and

d. the Owners will need to spend some extra time reviewing the shell company to ensure its pre-existing obligations have been satisfied.

Despite these disadvantages, on balance, the RTO procedure is a relatively fast and efficient method of going public.

2. initial public offering

An IPO involves the sale of securities of an existing company to the public under a prospectus for the first time, and normally involves listing on a stock exchange or stock market.

Normally, the first transaction conducted in an IPO would be the incorporation of a company. Once the company is set up and business interests are acquired, it must be capitalized. Stock is issued. Funds used to capitalize the company are then used to pay the fees and expenses associated with the "going public" process.

The costs associated with an IPO will generally be similar to those of an RTO, except that the acquisition cost of a shell company is avoided. Time required for the entire process is usually six to twelve months.

The advantages of an IPO are generally the converse of the disadvantages of an RTO:

a. in total, it will probably be less expensive than an RTO (although professional fees alone will probably be highest);

b. if the company is already established offshore, there are unlikely to be any tax consequences which could result from a Continuation (if one is necessary); and

c. there are no pre-existing obligations or name association which may be carried by a shell company.

The disadvantages are:

a. there is no existing shareholder base and distribution will be more of an issue when dealing with the underwriter;

b. the review of the IPO will be conducted by both the securities commission and the stock exchange, which will add to the costs associated with professional fees; and

c. it may be more difficult to interest an underwriter in an IPO than an RTO.

3. capital pool corporation

Going public through a capital pool corporation ("CPC") is a two-stage process. The first stage involves the incorporation and initial round of financing by the founders (the "CPC Principals") of the CPC, the completion of an initial public offering by the CPC (the "IPO") and subsequent listing of the CPC on the TSXV. The second stage involves the identification of a qualifying transaction ("QT") (being a transaction where the CPC acquires significant assets), the filing with the TSXV of a comprehensive information circular or filing statements describing the QT, any related changes to management, and any concurrent financing. The CPC must obtain the approval of the TSXV before it can complete the QT. Where the QT includes matters for which shareholder approval is required under corporate legislation, such as where the CPC is continued to another jurisdiction, the CPC must obtain shareholder approval for the QT. As the Owners will likely want the company formed on the combination of the business of the Owners and the CPC (the "Resulting Issuer") to be domiciled outside of Canada, shareholder approval will be required.

CPC formation

To form a CPC, the CPC Principals contribute a minimum of $100,000 to a maximum of $500,000 through the purchase of shares (the "Seed Shares") of a company incorporated in a Canadian jurisdiction. The minimum price at which the Seed Shares can be sold is the greater of $0.05 and 50% of the price at which shares are sold to the public in the IPO. If the Seed Shares are sold at a discount to the IPO price, the Seed Shares will be subject to escrow requirements (discussed below). The CPC then engages a registered investment dealer to complete the IPO. With the IPO, the CPC must raise a minimum of $200,000 and can raise a maximum of $4,750,000. The maximum dollar amount a CPC can raise before completing a QT is $5 million, including any private placement financing completed after the completion of the IPO and before completion of the QT. Upon completion of the IPO, the CPC is listed on the TSXV.

In order to be listed on the TSXV, the CPC must have:

a. a minimum of 1,000,000 common shares issued and outstanding in the Public Float; and

b. at least 200 shareholders, each holding at least 1,000 common shares free of resale restrictions.

Any investment dealer acting as agent in connection with the IPO will generally receive a 10% cash commission and warrants to acquire such number of common shares as is equal to 10% of the number of the shares issued in the IPO (the "IPO Shares"). These warrants will be exercisable for a period of 24 months, at the price at which the IPO Shares are sold.

the qualifying transaction

The only business a CPC can conduct is to identify a QT. The QT must be of such a nature that the CPC will meet initial listing requirements upon completion. The initial listing requirements for Tier 1 and Tier 2 Industrial Issuers are set out on Appendix I of this paper. If the listed company meets the Tier 1 standard, it is more likely that the Exchange would permit the CPC to acquire a foreign asset. Note that a Tier 1 issuer which has no track record of earnings must have at least $5 million of net tangible assets.

For the purposes of structuring the capitalization of the Resulting Issuer, the Owners should be aware of the following minimum market distribution requirements:

tier 1 issuers:

a. Market value of securities held by Public Shareholders of $1,000,000;
b. Public Shareholders holding a minimum of 1,000,000 free trading shares;
c. 200 Public Shareholders each holding a board lot with no resale restrictions;
d. 10% of the issued and outstanding shares in the Public Float; and
e. 20% of the issued and outstanding shares in the hands of Public Shareholders.

tier 2 issuers:

a. Market value of securities held by Public Shareholders of $500,000;
b. Public Shareholders holding a minimum of 500,000 free trading shares;
c. 200 Public Shareholders each holding a board lot with no resale restrictions;
d. 10% of the issued and outstanding shares in the Public Float; and
e. 20% of the issued and outstanding shares in the hands of Public Shareholders.

In this case, "Public Shareholders" are shareholders who are not promoters, insiders or associates or affiliates of insiders, of the Resulting Issuer, and the "Public Float" consists of the common shares held by Public Shareholders and which are not subject to resale restrictions. The CPC Principals will be included as Public Shareholders if they are not principals or otherwise Insiders of the Resulting Issuer. The portion of the Seed Shares in escrow at the time of completion of the QT will not be considered part of the Public Float.

Once a QT has been identified and the terms of the transaction determined, the parties enter into an agreement. Attached as Appendix II to this paper is a timeline identifying the significant milestones for completing a QT. The CPC will be required to prepare an information circular for delivery to its shareholders or a filing statement containing prospectus-level disclosure on the Owner's business, the Resulting Issuer and the QT.

Readers of this paper should be aware that, if an agreement in principle exists before the CPC completes its IPO, the Owners will not be able to go public through the CPC program. An agreement in principle will exist if there are no material conditions to the completion of the QT, other than the necessary regulatory approvals.

acquisition of foreign assets

If a CPC is a reporting issuer in Ontario and acquires assets not located in Canada or the United States, other than oil and gas or mining assets, the QT must be undertaken using a prospectus as the disclosure document.

escrow requirements

The Seed Shares and any other shares acquired by the CPC Principals will be subject to escrow requirements and released at the rate of 15% every six months over a period of 36 months, with an initial release of 10% upon completion of the IPO. If the Resulting Issuer is listed on Tier 1, the holders of the Seed Shares can apply to have the escrow period reduced to 18 months.

Shares issued as consideration for the assets purchased in the QT (the “Vendor Shares”) will also be subject to escrow requirements. These requirements vary based upon whether the Vendor Shares are issued as “value” securities or “surplus” securities. Value securities will be released from escrow over a period of 18 months at a rate of 25% every 6 months for Tier 1 Issuers, and over a period of 36 months at a rate of 15% every 6 months with an initial release of 10% for Tier 2 Issuers. Surplus securities will be released from escrow over a period of 18 months at the rates of 10%, 20%, 30% and 40% every 6 months for Tier 1 Issuers, and over a period of 36 months at increasing, varying rates every 6 months for Tier 2 Issuers. Securities will be deemed to be value securities if the value of the assets acquired is equal to, or greater than, the value of the shares issued.

Subject to certain exceptions, the Vendor Shares must be issued at a price of not less than the discounted market price of the CPC’s shares at the time of the announcement of the QT (generally 75% of the market price on the day immediately prior to announcing the QT). The total value of the Vendor Shares issued is simply determined by multiplying the number of shares issued by the deemed price per share. This valuation may not be the same valuation placed on the Vendor Shares for GAAP purposes.

The value of the assets acquired can be determined in a number of ways, including:

a. by formal valuation;
b. Net Tangible Assets;
c. five times average annual cash flow;
d. for start-up issuers, by deferred expenditures or expenses incurred within the past five years which can reasonably be expected to contribute to the future operations of the Resulting Issuer and which are supported by audited financial statements or an audited statement of costs; or
e. by a concurrent arm’s length financing, if the number of shares to be issued pursuant to the financing will result in such shareholders holding 20% of the issued and outstanding shares of the Resulting Issuer.

additional financing

The amount of additional financing required to reach a total financing of $2 million to $5 million will depend upon the funds in the CPC and the funds the Owners bring to the transaction. The CPC can raise a maximum of $5 million, whether from the sale of Seed Shares, IPO Shares, or a private placement conducted prior to the QT. Therefore, at a minimum, concurrent financing in conjunction with the QT, will need to raise $3 million if the Owners' objective is to have $5 million in cash in the CPC following the QT. In order to achieve a 10% Public Float, the CPC must raise more than the minimum amount on its IPO, or the concurrent financing must include a prospectus offering component to remove any resale restrictions.

The investment dealer acting as agent or underwriter in connection with the additional financing will require a cash commission of, generally, between 8% and 10% of the gross proceeds, and warrants to acquire between 8% and 10% of the number of shares sold in the financing.

capitalization structure

Attached as Appendices III, IV and V to this paper are indicative capitalization structures for the proposed QT. They are not indicative of any specific transaction, but are meant for illustrative purposes only. Appendix III assumes minimum capitalization at the CPC stage, while Appendix IV assumes greater capitalization at the CPC stage, in each case with a total financing of $5 million. Appendix V assumes a minimum capitalization at the CPC stage, and a total financing of $2 million. Appendix VI details the expected costs of the IPO and QT.

The advantages of a CPC are similar to those of an RTO:

a. the Owners start out with an existing shareholder base that assists in dealing with liquidity issues that may arise in the future;
b. the Owners will not have the pre-existing obligations or name association which can occur when conducting an RTO with a shell company;
c. the Owners can obtain a listing more quickly;
d. the Owners may be able to leverage the CPC's pre-existing relationship with investment dealers and past management; and
e. the Owners will deal mainly with the stock exchange rather than the securities commissions.

The disadvantages are:

a. the Owners will suffer immediate dilution to the interest in their business as a result of the acquisition of a pre-existing company with shareholders; and
b. the investors in the CPC have generally invested at a low price and have a tendency to sell fairly quickly after they are able to recognize a profit on the sale.

4. the listing application

Where the Owners have a pre-existing company with sufficient shareholder distribution to meet the TSXV's listing requirements, the Owners may be able to list on the TSXV, and thereby become a reporting issuer, without the expense of an IPO, RTO or CPC. In this process, the Owner's listing application will contain all of the detailed information that a prospectus would include, but it will be reviewed by the staff of the TSXV instead of the securities commissions. This method of listing is most appropriate for companies of a jurisdiction with securities regulations similar to those in Canada.

In conclusion, the method chosen for the going public process will be very fact-dependent and will vary by project and market conditions. No decision should be made without careful consideration of all of the circumstances, in consultation with professional advisors.

methods of going public on the TSX

The three methods by which an operating company can go public on the TSX are:

1. an initial public offering (IPO);
2. a reverse takeover transaction (RTO); and
3. listing of an existing company without conducting an IPO.

The TSX does not have a capital pool corporation (CPC) program.

Befitting a more senior exchange, the TSX has listing requirements for industrial companies that are more stringent than those of the TSXV, which include $2 million in net tangible assets and pre-tax earnings of $0.2 million, or $7.5 million in net tangible assets and evidence of imminent pre-tax earnings and pre-tax cash flow. For technology companies, the requirements include a minimum of $10 million in treasury, adequate funds to cover all planned development and capital expenditures, evidence that the company's products or services are at an advanced stage of development, and a minimum market value of $50 million of the issued securities to be listed.

In practice, sponsorship by a member of the TSX of the new listing applicant is required. However, the TSX is a business that operates in a competitive environment. Accordingly, the TSX will generally be favourably predisposed toward foreign companies which meet any of the following criteria:

a. Canadian incorporation;
b. head office in Canada;
c. material operations in Canada;
d. shareholders are Canadian and the principal market for trading in the securities is, or is expected to be, in Canada;
e. the company completes its public offering in Canada; or
f. the company's business is mineral exploration, mine development or production.

factors in structuring an international financial transaction

There is no magic formula for a successful transaction. There are, however, a few factors that can assist in making a transaction successful, in terms of dealing with the underwriting community, investment community, and the regulators. The following is a short sampling of a number of those factors.

capital structure and founders' stock

Generally speaking, a simpler capital structure is preferable. Canadian investors and regulators are not attracted to capital structures that provide for different classes of shares with different voting rights; indeed, in many cases these sorts of structures are prohibited. One exception to this rule relates to the issue of shares to founders at discounts to the price at which shares are sold to the public.

The regulators recognize that founders – those individuals responsible for organizing and funding early stage companies – deserve extra credit for the risks involved. As a result, the securities commissions and the TSXV have established regimes whereby founders can obtain some return for risks taken early in the life of the company. In exchange for receiving the shares at discounted prices, founders must agree to the escrow of their shares for a period of time after listing (18 months to 3 years). This ensures founders will continue to support the company for a period of time after listing.

Regardless of the regime under which these founders' shares can be issued, both the regulators and investment community will be impressed by founders who are not greedy. In certain cases, the rules provide significant discretion in terms of the number of shares that can be issued to founders. It is important that it be readily apparent that the company and its principals have exercised this discretion judiciously, taking into account the interests of the prospective new public shareholders.

name recognition

It is important for both investors and regulators that recognizable names be associated with a new company. This association can be in any number of ways and generally, the more the better. However, the associations must be real. The fact that a company is able to attract recognized advisors and partners gives comfort to potential investors and regulators whose job it is to review documents with an eye for weaknesses.

In this regard, international companies proposing to raise money in North America should consider associating themselves with companies and individuals with an established reputation in North America. These may be joint venture partners or directors with a track record of success in a particular field. Additionally, companies are well advised to select both an auditor and legal counsel with adequate resources and a good reputation. While these issues arise in the context of any transaction, they are particularly important in the context of an international transaction.

financial credibility

Both investors and regulators look for investment by people familiar with the transaction. For example, if a company was proposing to raise money to fund a foreign project, investors will want to see the founders of the company investing real money in the transaction. In addition, investors will look for the presence of knowledgeable local investors familiar with projects in the area at hand.

board of directors and corporate governance

North American companies have come under considerable pressure in recent years from regulators and fund managers to ensure that appropriate corporate governance procedures are in place and to ensure that minority shareholders are represented on the board. It is important, therefore, to ensure that independent directors with public company experience are involved in a company's operations before that company comes to the market seeking funds.

Having a strong board with persons whom investors recognize as having a solid track record of integrity and success with public companies cannot be overemphasized. Investors often look for management who have "done it before" when investing in early-stage companies.

recent developments in corporate governance

The Canadian Securities Administrators ("CSA") have published a national policy for corporate governance practices. The policy recommends that public issuers:

a. maintain a majority of independent directors (unrelated to management and free of conflicts) on the board of directors;

b. appoint an independent director as chair of the board, or as a lead director;

c. ensure independent directors hold regular meetings apart from management and inside directors;

d. provide orientation and ongoing education for directors;

e. develop written mandates for the board and committees, written job descriptions for the chair of the board, chair of committees and for the CEO, and a code of business conduct and ethics;

f. appoint a nominating committee and a compensation committee, both composed entirely of independent directors; and

g. regularly assess the effectiveness of the board, its committees and each director and identify the competencies and skills needed on the board to improve its effectiveness.

Although the recommendations are only guidelines, the CSA considers such guidelines "best practices" and expects public issuers to comply with them. In addition, listed public companies must annually disclose in their information circulars a description of the corporate governance practices of the company. Venture issuers (those that are listed only on the TSXV) are permitted more flexibility in developing corporate governance procedures and systems that are more appropriate to their particular situation.

The CSA has also published rules governing audit committees and certification of financial information. Although British Columbia has published its own rules, for practical purposes the CSA rules will apply to all public issuers. Briefly, public issuers must have an audit committee, composed of three members, all of whom are financially literate (able to understand a set of financial statements) and are independent directors. The audit committee must have direct, independent contact with the auditors of the public issuer. The rules also require the CEO and CFO of the public issuer to personally certify that the issuer's financial statements fairly present the financial condition of the issuer.

financial statements

Effective for financial years beginning January 1, 2011, Canada adopted International Financial Reporting Standards ("IFRS") making financial reporting for foreign issuers that use IFRS virtually seamless. Owners considering going public should plan on presenting three years of audited results. A foreign issuer's audit report must be prepared by an accounting firm that is registered with the Canadian Public Accountability Board (http://www.cpab-ccrc.ca).

RRSP eligibility

Shares of foreign companies that are listed on any of Canada's recognized stock exchanges may be acquired (subject to certain limits) by "registered retirement savings plans" and "registered retirement income funds". RRSPs and RRIFs are special, tax-favoured vehicles by which Canadians may save for their retirement. Because of their very favourable tax attributes, RRSPs and RRIFs are enormously popular in Canada, accounting for billions of dollars in savings. Eligibility for investment by RRSPs and RRIFs is therefore an attractive aspect of listing shares on a Canadian stock exchange.

As noted, these examples are but a few of the many issues that are important to both investors and regulators in terms of making a successful offering.

emerging market issuers

Companies with a significant connection to an emerging market jurisdiction may be subject to special requirements.

In December 2012, the TSX and TSXV published a joint consultation paper (the "Consultation Paper") on emerging market issuers ("EMI") that discusses the risks of listing companies with a significant connection to emerging market jurisdictions, as well as the approach that will be taken by the exchanges with respect to listing EMIs. The TSX and TSXV define emerging market jurisdictions as those outside of Canada, the United States, Western Europe, Australia and New Zealand. While the policy document has not yet been finalized, in practice the TSX and TSXV are implementing many of the procedures and guidelines set out in the Consultation Paper now. For example, EMIs can expect to encounter special rules with respect to the disclosure of management and corporate governance, financial reporting, internal controls, related-party transactions, non-traditional corporate/capital structures, and sponsorship of EMIs.

The TSX and TSXV recommend that EMIs or companies with significant connections to emerging market jurisdictions (for example, if the company's business, operating assets or jurisdiction of incorporation is in an emerging market jurisdiction) looking to list their securities on either exchange arrange a pre-filing meeting with the applicable exchange.

Additionally, while the TSX has previously waived sponsorship requirements for certain applicants completing an IPO or graduating from the TSXV, the TSX has indicated that this will likely not be the case for EMIs, which will have to adhere to the full sponsorship requirements. Similarly, the TSXV has indicated that EMIs will have to adhere to full sponsorship requirements, except where it has decided otherwise based on certain discretionary rules.

The TSX and TSXV may in their discretion require supplemental ongoing requirements for EMIs including pre-clearance of a change of auditors and pre-clearance of new board members or new senior management. The TSX may impose any supplemental ongoing requirement at the time of listing and could periodically reconsider these requirements as the EMI's risk profile changes over time. Similarly, the TSXV may require all EMIs to continue to comply with the EMI requirements on an ongoing basis for EMIs to be mindful of corporate actions that may impact continued compliance.

conclusion

The foregoing provides a general introduction to the going public process on the TSXV and TSX and highlights some of the issues and key factors to be considered in structuring an international corporate finance transaction. While this paper is not intended to be an in-depth discussion of these topics, it is hoped that it is informative and provides a sense of the potential advantages and practical considerations of listing on a Canadian exchange. Companies interested in learning more about going public are encouraged to consult their legal, accounting and financial advisors for assistance and a more detailed discussion on how their particular company might want to access international sources of capital through a Canadian exchange to take advantage of the many prospective opportunities and benefits available.

appendix I
TSXV initial listing requirements – industrial issuer

	Tier 1			Tier 2		
Requirement	Category 1	Category 2	Category 3	Category 1	Category 2	Category 3
Net Tangible Assets	$1,000,000	$5,000,000	No requirement	$500,000	$750,000	$750,000
Approved Expenditures	No requirement	No requirement	No requirement	No requirement	No requirement	$250,000 prior expenditures related to the development of the product or technology to be commercialized pursuant to the business plan in past 12 months
Working capital and Financial Resources	Adequate Financial Resources for 18 months	Adequate Working Capital for 18 months under business plan (incl. G&A)[1]	Adequate Financial Resources for 18 months	Adequate Working Capital and Financial Resources for 12 months	Adequate Working Capital and Financial Resources for 12 months under business plan (incl. 12 months G&A)[1] and $100,000 unallocated	Adequate Working Capital and Financial Resources for 12 months under business plan (incl. 12 months G&A)[1] and $100,000 unallocated
Earnings or Revenue	$100,000 pre-tax earnings in last year or in two of the last three years	No requirement	$200,000 pre-tax earnings in last year or in two of the last three years	$50,000 pre-tax earnings in last year or in two of the last three years	$250,000 operating revenue	No requirement
Distribution, Market Capitalization and Float Capitalization and Float	$2,000,000 held by Public Shareholders 1,000,000 public free trading shares 200 Public Shareholders with a Board Lot and no Resale Restrictions 10% Public Float 20% of issued and outstanding shares in the hands of Public Shareholders			$500,000 held by Public Shareholders 500,000 public free trading shares 200 Public Shareholders with a Board Lot and no Resale Restrictions 10% Public Float 20% of issued and outstanding shares in the hands of Public Shareholders		
Other Criteria	Sponsor Report (if required)	Sponsor Report (if required) Two-year management plan demonstrating reasonable expectation of earnings within 24 months	Sponsor Report (if required)	Sponsor Report (if required)	Sponsor Report (if required) Two-year management plan demonstrating reasonable expectation of earnings within 24 months	Sponsor Report (if required) Two-year management plan demonstrating reasonable expectation of revenue within 24 months and reasonable expectation of revenue within 24 months and working prototype of any industrial product or, in respect of any industrial product or, in respect of any technology, testing satisfactory to demonstrate reasonable likelihood of commercial viability

notes:

1. G&A means general and administrative expenses.

appendix II
qualifying transaction timeline

	event	commence (day)	complete (day)
1.	Prepare business plan	1	30
2.	Pre-clear with TSXV sale of foreign assets to CPC	30	44
3.	Determine financial statement and valuation requirements for the Owners' business	30	44
4.	Identify CPC and negotiate terms of transaction	30	51
5.	Identify and retain sponsor and agent for financing	30	51
6.	Sign agreement in principle, halt trading of QT, announce QT in press release and file press release with TSXV	51	51
7.	If determined to resume trading, sponsor to file Sponsor Acknowledgement Form	51	60
8.	Prepare information circular and initial submission for filing with the TSXV	51	60
9.	File initial submission, including information circular, financial statements, business plan and any evidence of value with TSXV. Issue notice of meeting to transfer agent of CPC	60	60
10.	Prepare materials for any additional financing (subscription agreement, offering memorandum, short-form offering document, prospectus)	60	75
11.	Clear TSXV comments, file consent letters and final information circular with TSXV; mail information circular to shareholders	60	80
12.	File and clear prospectus/short-form offering document (if required for financing) with securities commissions/TSXV	75	100
13.	Market additional financing	100	120
14.	Hold shareholders' meeting	115	115
15.	File final materials with TSXV and obtain approval to close QT	116	120
16.	Close QT and additional financing		120
17.	Commence trading on Tier 2/Tier 1		123

appendix III
sample CPC Capital Structure - total financing $5 million
assuming minimum financing of $300,000 prior to QT

Seed Share/IPO Price	$0.05/$0.10	$0.10/$0.20	$0.15/$0.25	Gross Proceeds ($)
Shares issued or issuable				
Capitalization of CPC				
Seed Shares	2,000,000	1,000,000	666,666	100,000
IPO Shares	2,000,000	1,000,000	1,000,000[1]	200,000[1]
CPC Issued and Outstanding (Basic)	**4,000,000**	**2,000,000**	**1,666,666[1]**	**300,000**
Options (CPC Principals)[2]	400,000	200,000	166,666	N/A
Agents' Warrants (IPO)[3]	200,000	100,000	100,000	N/A
CPC Issued and Outstanding (Fully Diluted)	**4,600,000**	**2,300,000**	**1,933,332**	**300,000**
Capitalization of Resulting Issuer				
CPC Issued and Outstanding (Basic)	4,000,000	2,000,000	1,666,666	300,000
Additional Financing Shares[4]	23,500,000	11,750,000	9,400,000	4,700,000
Maximum Number of Vendor Shares (at 80%)[5]	110,000,000	55,000,000	44,266,664	N/A
Resulting Issuer Issued and Outstanding (Basic)	**137,500**	**68,750,000**	**55,333,330**	**5,000,000**
Agents' Warrants (Additional Financing)[6]	5,875,000	2,937,500	2,350,000	N/A
Options (CPC Principals)[2]	400,000	200,000	166,666	N/A
Agents' Warrants (IPO)[3]	200,000	100,000	100,000	N/A
Resulting Issuer Issued and Outstanding (Fully Diluted)	**143,975,000**	**71,987,500**	**57,949,996**	**5,000,000**

notes:

1. Minimum number of shares issued in IPO must be 1,000,000. Total gross proceeds would increase by $50,000 to $250,000.
2. Assumes maximum number of options issued to CPC Principals, being equal to 10% of the number of shares outstanding in the CPC (non-diluted) after completion of the IPO.
3. Assumes issuance of the maximum number of Agents' warrants, being equal to 10% of the number of IPO shares issued.
4. Assumes shares are issued at a 100% premium to the IPO price and no warrants are issued to investors in connection with the additional financing.
5. Assumes that the Owners can establish requisite value of their assets to justify issues of 80% of outstanding shares as consideration.
6. Assumes issuance of the maximum number of Agents' warrants in connection with the additional financing, being equal to 25% of the number of shares issued under the additional financing.

appendix IV

sample CPC Capital Structure - total financing $5 million

assuming financing of $2 million prior to QT

Seed Share/IPO Price	$0.10/$0.20	$0.15/$0.25	Gross Proceeds ($)
Shares issued or issuable			
Capitalization of CPC			
Seed Shares	2,000,000	1,333,333	200,000
IPO Shares	9,000,000	7,200,000	1,800,000
CPC Issued and Outstanding (Basic)	11,000,000	8,533,333	2,000,000
Options (CPC Principals)[1]	1,100,000	853,333	N/A
Agents' Warrants (IPO)[2]	900,000	720,000	N/A
CPC Issued and Outstanding (Fully Diluted)	13,000,000	10,106,666	2,000,000
Capitalization of Resulting Issuer	11,000,000	8,533,333	2,000,000
CPC Issued and Outstanding (Basic)			
Additional Financing Shares[2]	7,500,000	6,000,000	3,000,000
Maximum Number of Vendor Shares (at 80%)[3]	**74,000,000**	**58,133,332**	**N/A**
Resulting Issuer Issued and Outstanding (Basic)	92,500,000	72,666,665	5,000,000
Agents' Warrants (Additional Financing)[4]	1,875,000	1,500,000	N/A
Options (CPC Principals)[5]	1,100,000	853,333	N/A
Agents' Warrants (IPO)[2]	**900,000**	**720,000**	**N/A**
Resulting Issuer Issued and Outstanding (Fully Diluted)	96,375,000	75,739,998	5,000,000

notes

1. Assumes issuance of the maximum number of Agents' warrants, being equal to 10% of the number of IPO shares issued.
2. Assumes shares are issued at a 100% premium to the IPO price and no warrants are issued to investors in connection with additional financing.
3. Assumes that the Owners can establish requisite value of their assets to justify issues of 80% of outstanding shares as consideration.
4. Assumes issuance of the maximum number of Agents' warrants in connection with the additional financing, being equal to 25% of the number of shares issued under the additional financing.
5. Assumes issuance of the maximum number of options to CPC Principals, being equal to 10% of number of shares outstanding in the CPC (Basic).

appendix V
sample CPC Capital Structure - total financing $2 million
assuming minimum financing of $300,000 prior to QT

Seed Share/IPO Price	$0.05/$0.10	$0.10/$0.20	$0.15/$0.25	Gross Proceeds ($)
Shares issued or issuable				
Capitalization of CPC				
Seed Shares	2,000,000	1,000,000	666,666	100,000
IPO Shares	2,000,000	1,000,000	1,000,000[1]	200,000[1]
CPC Issued and Outstanding (Basic)	**4,000,000**	**2,000,000**	**1,666,666[1]**	**300,000**
Options (CPC Principals)[2]	400,000	200,000	166,666	N/A
Agents' Warrants (IPO)[3]	200,000	100,000	100,000	N/A
CPC Issued and Outstanding (Fully Diluted)	**4,600,000**	**2,300,000**	**1,933,332**	**300,000**
Capitalization of Resulting Issuer				
CPC Issued and Outstanding (Basic)	4,000,000	2,000,000	1,666,666	300,000
Additional Financing Shares[4]	8,500,000	4,250,000	3,400,000	1,700,000
Maximum Number of Vendor Shares (at 80%)[5]	50,000,000	25,000,000	44,266,664	N/A
Resulting Issuer Issued and Outstanding (Basic)	**62,500,000**	**31,250,000**	**25,333,330**	**2,000,000**
Agents' Warrants (Additional Financing)[6]	2,125,000	1,062,500	850,000	N/A
Options (CPC Principals)[2]	400,000	200,000	166,666	N/A
Agents' Warrants (IPO)[3]	200,000	100,000	100,000	N/A
Resulting Issuer Issued and Outstanding (Fully Diluted)	**65,225,000**	**32,612,500**	**26,449,996**	**2,000,000**

notes:

1. Minimum number of shares issued in IPO must be 1,000,000. Total gross proceeds would increase by $50,000 to $250,000.
2. Assumes maximum number of options issued to CPC Principals, being equal to 10% of the number of shares outstanding in the CPC (non-diluted) after completion of the IPO.
3. Assumes issuance of the maximum number of Agents' warrants, being equal to 10% of the number of IPO shares issued.
4. Assumes shares are issued at a 100% premium to the IPO price and no warrants are issued to investors in connection with the additional financing.
5. Assumes that the Owners can establish requisite value of their assets to justify issue of 80% of outstanding shares as consideration.
6. Assumes issuance of the maximum number of Agents' warrants in connection with the additional financing, being equal to 25% of the number of shares issued under the additional financing.

appendix VI

estimated costs

assuming minimum capitalization of CPC of $300,000

CPC Formation Costs	$ Range
Legal Issuer	$20,000 - 25,000
Agent	10,000 - 15,000
Audit	7,500 - 10,000
TSXV fees[1]	15,000
Other regulatory fees[2]	3,000 - 6,000
Cash commission[3]	20,000
Miscellaneous	2,500
Total	$78,000 – 93,500

QT and Additional Financing	
Legal	$175,000
Audit	--[4]
TSXV fees[5]	30,000
Other regulatory fees[6]	1,410
Cash commission[3]	470,000
Miscellaneous	25,000
Total	$701,410

1. TSXV fees for the CPC are $15,000.
2. $3,000 to file in British Columbia or Alberta and $3,000 to file in Ontario.
3. Assuming 10% cash commission, $4,700,000 additional financing.
4. Highly variable.
5. TSXV fees for the QT are $7,500 plus 0.5% of the deemed value of the shares issued to a maximum of $30,000.
6. BCSC fees are 0.02% of gross proceeds raised in British Columbia. BCSC fees are 0.03% if not filing under prospectus. $1,410 assuming 4.7 million shares issued under QT.

notes