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## 1 hot issues

### What is a SPAC?

Special Purpose Acquisition Corporations (SPAC) were adopted by the Toronto Stock Exchange (TSX) in December of 2008.

- SPAC is an investment vehicle that allows public investors to invest in areas/businesses or assets usually sought by private equity firms
- They are initially a shell, blank-cheque, or a blind-pool company with no previous operational history
- An initial public offering (IPO) is needed to go public with a plan to use proceeds raised to merge with, or acquire a company, group of companies or other assets

Unlike a traditional IPO, the SPAC program enables seasoned directors and officers to form a corporation that contains no commercial operations or assets other than cash. The SPAC is then listed on the TSX via an IPO, raising a minimum of CDN \$30 million. 90% of the funds raised in the IPO are then placed in escrow, to be used toward a future acquisition.

The SPAC must then seek out an investment opportunity in a business or asset, to be completed within 36 months of the SPAC's listing on the TSX, and defined as the "qualifying acquisition." Once the SPAC has completed its qualifying acquisition, which must meet the TSX listing requirements, its shares will continue trading as a regular listing on the TSX.

SPACs become reporting issuers as a result of their IPO, and thus are fully regulated by the relevant provincial securities commissions as well as the TSX. Because the SPAC is a publicly traded entity, it also provides access to liquidity for investors, allowing those shareholders to increase or decrease their investment risk profile accordingly.

### What are the benefits of a SPAC?

The TSX implemented the SPAC program because it understands the unique needs of companies in accessing capital. The SPAC program:

- Helps growth-orientated companies raise a minimum of CDN \$30 million;
- Provides an effective way of creating valuable acquisition currency for multiple M&A transactions;
- Offers liquidity and visibility to founder and private company investors;
- Incorporates regulatory safeguards that help protect all parties throughout the SPAC process;
- Fosters an attractive environment for risk-tolerant investors from the general public to promote the formation of capital; and
- Provides access to seasoned management and financiers for a private company.

For more information on SPACs, visit: [http://www.tsx.com/en/pdf/TSX\\_SPAC\\_ProductSheet.pdf](http://www.tsx.com/en/pdf/TSX_SPAC_ProductSheet.pdf) or contact (416) 947-4728 or 1 (888) 873-8392, or email [listings@tsx.com](mailto:listings@tsx.com).

### Capital Pool Company Program (CPC)

The Capital Pool Company (CPC) program is a unique listing vehicle offered exclusively by TSX Venture Exchange (TSX-V). The program is a two-phased process, involving the following steps:

#### Phase 1 – The Capital Pool Company

##### Creating the CPC:

- Three to six individuals with an appropriate combination of business and public company experience put up a minimum of \$100,000 in seed capital.
- These founders incorporate a shell company – CPC – and issue shares in exchange for seed capital at a minimum price between the greater of \$0.05 and 50% of the price at which subsequent shares are to be sold via prospectus.
- The CPC and its advisors prepare a prospectus that outlines management's intention to raise between \$200,000 and \$1,900,000 by selling CPC shares at typically twice the issuance price of the seed shares, and to use the proceeds to identify and evaluate potential acquisitions.

##### Selling the shares:

- The CPC files the prospectus with the appropriate securities commission(s), and applies for listing on TSX-V.
- The broker sells the CPC shares, pursuant to the prospectus, to at least 200 arm's length shareholders, each of whom buys at least 1,000 shares. No one purchaser can purchase more than 2% of the offering. In addition, no one purchaser together with his, her, or its associates or affiliates can purchase more than 4% of the offering.
- Once the distribution has been completed and closed, the CPC is listed for trading on the TSX-V. The symbol includes a .P to identify the company as a CPC.

## Phase 2 – The Qualifying Transaction

### Announcing the acquisition:

- Within 24 months, the CPC identifies an appropriate business as its “qualifying transaction” and issues a news release to announce that it has entered an agreement in principle to acquire the business.
- The CPC prepares a draft filing statement or information circular providing prospectus-level disclosure on the business that is to be acquired.
- TSX-V reviews the disclosure document and evaluates the business to ensure it meets minimum listing requirements.

### Closing the deal:

- As shareholder approval is typically not required, the filing statement is posted on SEDAR for at least seven business days, after which the qualifying transaction closes and the business is acquired.
- Additional components of the deal often include the following: name change and private placement coinciding with the closing of the qualifying transaction.
- The .P from the ticker symbol is removed and the company now trades as a regular TSX-V listed company

For the TSX-V Regulatory requirements, see Policy 2.5 of the TSX-V Manual <http://www.tsx.com/en/pdf/Policy2-4.pdf>, [http://www.tsx.com/en/listings/listing\\_with\\_us/ways/capital\\_company.html](http://www.tsx.com/en/listings/listing_with_us/ways/capital_company.html)

For more information on CPC's on the Venture Exchange, visit <http://www.tsx.com/en/pdf/CPCBrochure.pdf>

## A brief comparison of a SPAC to a CPC

	SPAC	CPC
Minimum IPO proceeds	\$30,000,000	\$200,000
Maximum IPO proceeds	n/a	\$1,900,000
Total maximum market capitalization	n/a	\$2,000,000
Total minimum market capitalization	\$33,000,000	n/a
Minimum IPO issue price	\$2.00	\$0.10
Maximum of IPO shares to one individual	n/a	2% of issued and outstanding
Founder (seed) contribution	10% to 20% of outstanding shares	\$100K to \$500K; min \$5K per person
Founder allowable discounts to IPO price	To be negotiated with underwriters	Maximum 50%
Warrants	Allowed	Not allowed
Minimum number of public board lot holders	300	200
Minimum number of freely tradeable shares	1,000,000	1,000,000
Resale restriction of founders shares until QT/QA	Yes	Yes
Time to complete QT/QA	36 months	24 months
Use of proceeds	To identify and fund acquisition	To identify acquisition
Security-based compensation	Not allowed	Allowed
Subsequent financing	By way of rights offering	To maximum of \$2 million
IPO proceeds held in trust	Minimum 90% of IPO raise	No
Original listing requirements post QT/QA	Yes (TSX)	Yes (TSX-V)

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