

**TORONTO STOCK EXCHANGE**

# **Guide to Special Purpose Acquisition Corporations**



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# Introduction to SPACs

In this introductory section we address the following fundamental questions regarding Special Purpose Acquisition Corporations (“SPACs”).

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## What is a SPAC?

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## What does it mean to sponsor a SPAC?

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## Why might investors be attracted to SPACs?

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## What are the advantages of listing a SPAC on Toronto Stock Exchange (“TSX”)?

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## SPAC Timeline

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## What is a SPAC?

The Special Purpose Acquisition Corporation is an investment vehicle allowing the public to invest in companies and/or industry sectors normally sought by private equity firms. In addition, it can provide an opportunity for individuals unable to buy into hedge or private equity funds the ability to participate in the acquisition of private operating companies traditionally targeted by those funds.

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 Toronto Stock Exchange 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 Toronto Stock Exchange, and defined as the “qualifying acquisition”. Once the SPAC has completed its qualifying acquisition, which must meet Toronto Stock Exchange original listing requirements, its shares will continue trading as a regular listing on Toronto Stock Exchange.

SPACs become reporting issuers as a result of their IPO, and thus are fully regulated by the relevant provincial securities commissions as well as Toronto Stock Exchange. And 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 does it mean to sponsor a SPAC?

The first step in the SPAC IPO process is to form a sponsor group of founding shareholders. The sponsoring group is usually made up of a small group of managers and financiers with the credibility and expertise necessary to raise the requisite funds and execute an appropriate acquisition. Founders are typically executives, finance professionals, private equity professionals and/or corporate sponsors. These persons typically have characteristics such as:

- access to proprietary deal flow (through networks or reputation);
- a strong track record of value creation;
- access to capital to fund a portion of the SPAC’s acquisition process (such as legal and public company expenses);
- time to perform capital raising and acquisition process duties, industry knowledge and public company experience.

Founders of SPACs are attracted to the significant upside and flexible investment strategies that SPACs offer. Assuming completion of a qualifying acquisition, sponsors’ investments usually result in a significant stake in permanent capital - founders may hold up to 20% of the post offering securities. In addition, a SPAC allows founders the opportunity to obtain liquidity through the sale of their publicly-listed SPAC shares once an acquisition is approved.

# Why might investors be attracted to SPACs?

SPACs are designed to allow the public to co-invest with sophisticated managers and financiers, an opportunity that has traditionally been restricted to institutional investors and private equity investors. SPACs are thought to have certain characteristics that should facilitate their ability to successfully complete an acquisition, including:

- access to financing through the Escrowed Funds and the ability to issue additional securities in connection with an acquisition;
- support of management of the acquisition target through the avoidance of integration issues often associated with a strategic buyer;
- profile and visibility amongst mergers and acquisitions advisors as a result of the IPO process and public listing;
- the flexibility to provide the target shareholders liquid shares as consideration versus cash (which may delay triggering certain taxes); and
- the ability to effectively allow the target to become a public company in an efficient manner.

In addition, the characteristics of SPACs described under the heading “What is a SPAC?” provide for investor protections (through the escrow requirements and redemption rights with the potential to provide significant upside (both through the success of an acquisition strategy and through the inclusion of warrants as part of the IPO).

# What are the advantages of listing a SPAC on TSX?

The speed of the SPAC process on TSX and under Canadian securities laws, from the formation of the company to the closing of a qualifying transaction, is relatively fast in comparison to the United States, thereby reducing execution risks.

## SPAC Timeline

Time in months and assumes the shortest time frames that can reasonably be expected in Canada (actual times may differ).

### CANADA / TSX



### U.S.



With 8 SPACs listed since 2015 that raised \$1.5 billion in IPO capital, Canadian retail investors are already familiar with SPACs in addition to TSX Venture Exchange’ Capital Pool Company (“CPC”) program, which essentially facilitates micro-SPACs. Since its inception, over 2,500 CPCs have been formed and listed on TSX Venture Exchange, with 86% subsequently completing a qualifying transaction. More than 250 former CPCs are currently trading on TSX after graduating from TSX Venture Exchange. Former CPCs raised over \$10 billion on TSX and TSX Venture Exchange in 2018.

# TSX SPAC Rules

## Minimum offering size and distribution requirements

A SPAC must raise a minimum of \$30 million dollars from at least 150 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). To secure a listing with TSX, a SPAC must submit the following:

### REQUIRED DOCUMENTS

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**A TSX listing application in draft form;**

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**The original listing application fee;**

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**The preliminary prospectus;**

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**A draft escrow agreement governing the IPO proceeds;**

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**Certified copies of all charter documents, including articles of incorporation and equivalent documents; and**

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**A personal information form for each officer, director or 10 percent holder of the SPAC.**

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## Capital structure

**The security provisions must contain:**

**Redemption Right**, pursuant to which public shareholders who voted against a proposed qualifying acquisition may elect that each security held be redeemed into their pro rated share of cash held in escrow.

**A liquidation distribution feature**, pursuant to which, if the qualifying acquisition is not completed within the permitted time frame, shareholders are entitled to their pro rated share of cash held in escrow.

**Where units, including warrants, are issued in the IPO:**

- the warrants must not be exercisable prior to the completion of the qualifying acquisition;
- the warrants must expire on the earlier of: (x) a fixed date specified in the IPO prospectus, and (y) the date on which the SPAC fails to complete a qualifying acquisition within the permitted time frame;
- the warrants may not have an entitlement to the escrowed funds upon liquidation of the SPAC; and
- no more than two warrants may be included in a unit.

The shares, warrants and/or units to be listed must be qualified by a prospectus receipted by the issuer's principal regulator. Warrants may be issued as part of a unit or "stapled" to the shares.

## Prohibition on debt and security based compensation

A SPAC is prohibited from obtaining any form of debt financing (except ordinary course short term trade or accounts payables) apart from unsecured loans for a maximum aggregate principal amount equal to 10% of the funds in escrow. Debt financings are contemporaneous with, or after, the completion of its qualifying acquisition will be permitted. In addition, TSX permits a credit facility to be entered into prior to a qualifying acquisition, but it may only be drawn down upon contemporaneously with the qualifying acquisition. The IPO prospectus must include a statement certifying that it will only obtain debt financing in accordance with the foregoing rules. A SPAC will not be permitted to adopt a security based compensation arrangement prior to the completion of a qualifying acquisition. Following the qualifying acquisition, standard TSX rules regarding security based compensation arrangements apply.

## Use of proceeds and escrow requirements

A SPAC must place at least 90% of the gross proceeds raised in its IPO, and the underwriter's deferred commissions (described below), in escrow with an escrow agent unrelated to the transaction and acceptable to TSX.<sup>1</sup> The escrow agent must invest the escrowed funds in permitted investments.

The underwriters must agree to defer and deposit a minimum of 50% of their commissions from the IPO as part of the escrowed funds. The deferred commissions will only be released to the underwriters upon completion of a qualifying acquisition within the permitted time. If the SPAC fails to complete a qualifying acquisition within the permitted time, the deferred commissions placed in escrow will be distributed to the holders of the securities as part of the liquidation distribution. Shareholders exercising their redemption rights will be entitled to their pro rata portion of the escrowed funds including any deferred commissions.

The proceeds from the IPO that are not placed in escrow and interest earned on the escrowed funds from permitted investments may be applied as payment for administrative expenses incurred by the SPAC in connection with the IPO, for general working capital expenses and for the identification and completion of a qualifying acquisition. The contemplated use of such monies should be disclosed in the SPAC prospectus.

## Subscription by founding shareholders

The founding shareholders must subscribe for units, shares or warrants of the SPAC. Founders are expected to have an aggregate equity interest of between 10% and 20% (depending on the price at which the securities are purchased). The terms of the initial investment must be disclosed in the IPO prospectus. The founding shareholders must agree not to transfer any of their founding securities prior to the completion of a qualifying acquisition. In the event of liquidation and delisting, the founding shareholders must agree that their founding securities shall not participate in a liquidation distribution.

## Permitted time for completion of a qualifying acquisition

A SPAC must complete a qualifying acquisition within 36 months of the date of closing of its IPO. Where the qualifying acquisition is comprised of more than one acquisition, the SPAC must complete each of the acquisitions comprising the qualifying acquisition concurrently. A particular SPAC may adopt a termination date less than 36 months following the closing of its IPO by setting out such earlier date in its prospectus.

## Shareholder and other approvals

The qualifying acquisition must be approved by: (i) a majority of directors unrelated to the qualifying acquisition, and (ii) a majority of the votes cast by shareholders of the SPAC at a meeting duly called for that purpose. Shareholder approval is not required where 100% of the gross proceeds from the IPO are placed in escrow. Where the qualifying acquisition is comprised of more than one acquisition, each acquisition must be approved.

The SPAC may impose additional conditions on the approval of a qualifying acquisition, provided that the conditions are set out in the information circular describing the qualifying acquisition. For example, the SPAC may impose a condition not to proceed with a proposed qualifying acquisition if more than a pre-determined percentage of public holders of securities vote against the proposed qualifying acquisition and exercise their conversion rights.

If a shareholder meeting at which there will be a vote on a qualifying acquisition must be held, the SPAC must prepare an information circular containing prospectus level disclosure of the resulting issuer assuming completion of the qualifying acquisition. This information circular must be pre-cleared by TSX prior to distribution.

## Prospectus requirement for qualifying acquisition

The SPAC must prepare and file a prospectus containing disclosure regarding the SPAC and its proposed qualifying acquisition with the Canadian securities regulatory authority in each jurisdiction in which the SPAC and the resulting issuer is and will be a reporting issuer assuming completion of the qualifying acquisition and, if applicable, in the jurisdiction in which the head office of the resulting issuer assuming completion of the qualifying acquisition is located in Canada.

<sup>1</sup> The following entities, if Canadian, are examples of the types of escrow agents that are acceptable to TSX: trust companies, financial institutions and law firms.

The SPAC must obtain a receipt for its final prospectus from the applicable securities regulatory authorities prior to mailing the information circular. If a receipt for the final prospectus is not obtained, completion of the qualifying acquisition will result in the delisting of the SPAC.

If a shareholder approval is not required for the qualifying acquisition, a notice of redemption must be mailed at least 21 days prior to the redemption deadline and the prospectus must be delivered at least two business days prior to the redemption deadline.

## The SPAC IPO Process

### Forming a sponsor group and selecting advisors

The first step in the SPAC IPO process is to form a sponsor group of founding shareholders. The founding shareholders who form the sponsoring group should retain, on behalf of the SPAC, the necessary team of advisors at the earliest opportunity to assist in the IPO process and establish goals and deadlines.

### Forming a SPAC

A SPAC should normally be formed under Canadian federal or provincial laws. Director residency and tax structuring considerations may suggest a particular provincial regime is more beneficial. It is important that tax structuring considerations be considered when forming a SPAC, as certain potentially beneficial tax structuring opportunities exist, such as:

- tax deferral options for acquisition target shareholders;
- the tax efficiency of the operating businesses going forward; and
- the ability to enhance valuation by reducing the group's global tax burden that may be incurred in cross-border acquisitions.

### The IPO prospectus

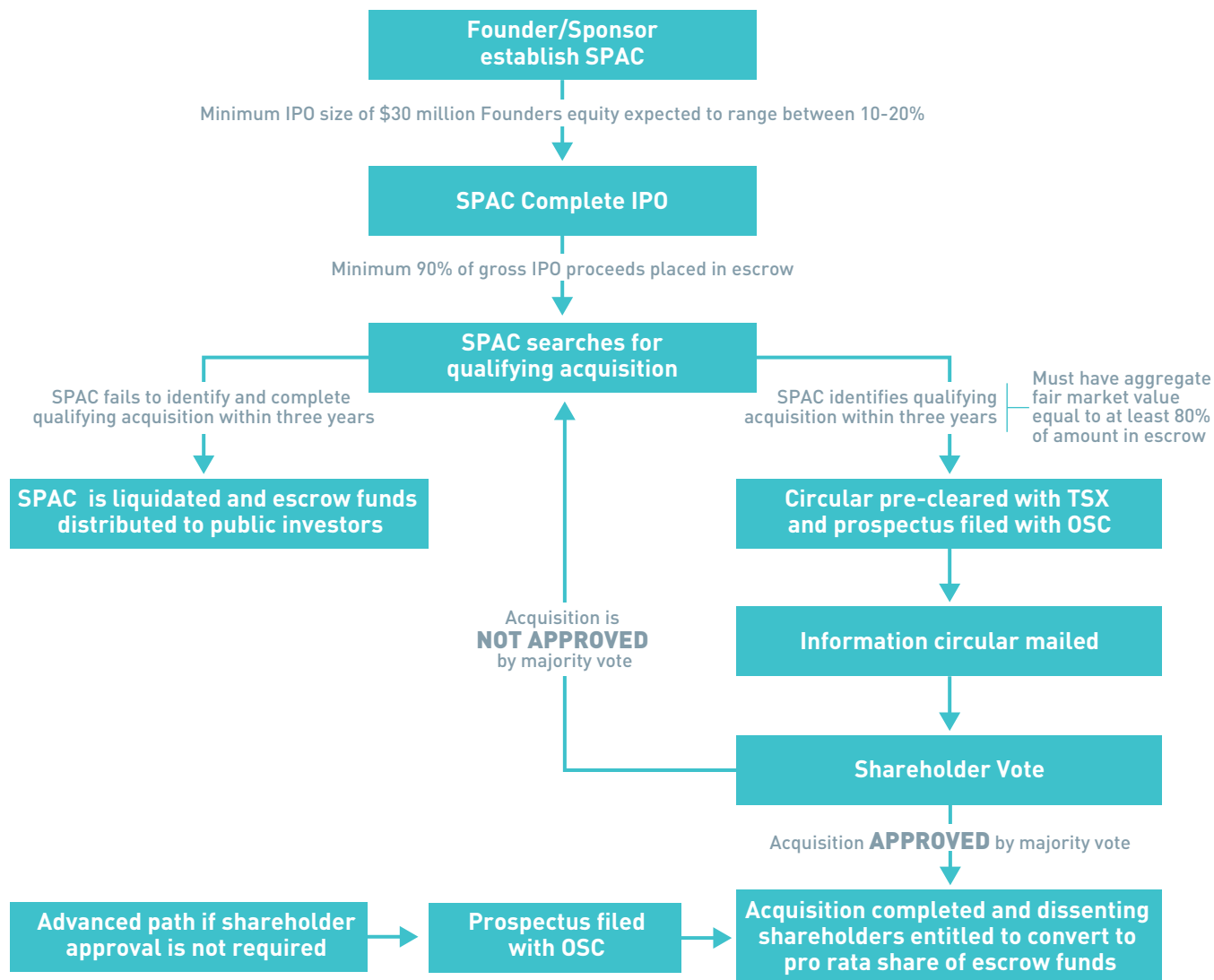
A SPAC IPO prospectus must be prepared in compliance with applicable securities laws. Given that a SPAC cannot have any operating activities, certain disclosures will necessarily differ from a traditional IPO prospectus (e. g., the description of the business and the financial statements of the SPAC where only a basic balance sheet will be available) and related management's discussion and analysis), yet many will be similar (e. g., directors and officers, description of the securities distributed and plan of distribution). In addition, as required by TSX, the IPO prospectus must include specific disclosures of the following items:

- the terms of the founding shareholders' initial investment in the SPAC, which must include an agreement not to transfer any securities prior to completion of the qualifying acquisition and an agreement that, in the event of a liquidation and delisting, the founding securities will not participate in a liquidation distribution;
- a statement that, as of the date of filing, the SPAC has not entered into a written or oral binding acquisition agreement with respect to a potential qualifying acquisition (although a SPAC may be in the process of reviewing a qualifying acquisition);
- the SPAC's target business sector or geographic area for its qualifying acquisition, if one is applicable;
- the valuation method(s) intended to be used in valuing the qualifying acquisition, if known;
- a statement that the SPAC will not secure debt financing beyond an amount not exceeding 10% of the escrow proceeds prior to completion of a qualifying acquisition;
- the proposed nature of permitted investments for the SPAC's escrowed funds and any intended use of interest earned on the escrowed funds from the permitted investments;
- the anticipated allocation of funds for administrative and working capital expenses;
- the limitation, if any, on the exercise of conversion rights for shareholders who vote against a proposed qualifying acquisition; and
- the expiry date of any share purchase warrants being issued, if such warrants have a fixed expiry date.

## Marketing and closing the IPO

Under Canadian securities laws, an initial comment letter should be delivered within 10 business days of the date of the preliminary receipt of the SPAC prospectus. Assuming that comments are not material, typically a two week marketing period commences (during which any comments should be resolved) and at the end of which, the final prospectus will be filed. Closing is typically five business days after the date of the final receipt to allow for the delivery of the final prospectus and expiry of the two business days withdrawal and rescission right period under Canadian securities laws. During the marketing period, founders should expect to travel to each of the major financial centres in Canada (and possibly the United States).

## The SPAC Qualifying Acquisition Process





## Identifying an acquisition target

Following the closing of the IPO, the SPAC's focus will be on identifying and completing an acquisition. The acquisition must: occur within the established deadline (which may be up to three years); and, have an aggregate fair market value equal to at least 80% of the aggregate amount in escrow. The acquisition purchase price may be funded through a combination of escrowed cash, debt financing and SPAC equity. The use of debt financing or SPAC equity may permit a SPAC to complete a qualifying acquisition significantly larger than its IPO or to retain some of the escrowed cash for future acquisitions or investment in the acquired business.

Where the qualifying acquisition is comprised of more than one acquisition, and the multiple acquisitions are required to satisfy the aggregate fair market value of a qualifying acquisition, these acquisitions must close concurrently and within the permitted time frame.

## Due diligence

In order for the directors and officers of the SPAC to fulfil their fiduciary duties and prepare the information circular and prospectus required in connection with the approval of the qualifying acquisition, due diligence on a proposed acquisition target is necessary (including financial, tax and legal due diligence). The due diligence process is a major expense of the SPAC and time commitment for management of the SPAC.

## Continuous disclosure obligations

As a reporting issuer, the SPAC must comply with the continuous disclosure obligations under Canadian securities laws and TSX, including, the need to file financial statements, related management discussion and analysis, press releases and material change reports (including those related to a proposed acquisition).

## Purchase agreement

Concurrent with, or immediately following, the due diligence process, a SPAC will need to negotiate and finalize a purchase agreement for the acquisition target. Attention should be paid to ensure appropriate terms unique to a SPAC acquisition are incorporated into the acquisition agreement, including:

- conditions related to shareholder and regulatory approvals and redemption rights;
- the disclosure of financial statements of the acquisition target required to comply with the probable significant acquisition financial statement rules under Canadian securities laws (i. e., three years of audited results and a pro forma statement); and
- the disclosure of the business and material contracts of the acquisition target required to comply with the prospectus rules under Canadian securities laws and information circular requirements of TSX.

## The information circular (If shareholder approval is required)

The information circular prepared for the meeting of shareholders must contain prospectus level disclosure of the resulting issuer assuming completion of the qualifying acquisition, and must be submitted to TSX for pre-clearance prior to distribution. If the SPAC imposes additional conditions on the approval of a qualifying acquisition, these conditions must be described in the information circular. For example, the SPAC may impose a condition not to proceed with a proposed qualifying acquisition if more than a pre-determined percentage of public holders of securities exercise their conversion rights.

The information circular may only be mailed once a receipt for the prospectus has been obtained. TSX expects that the prospectus will be included as part of the information circular, to simplify disclosure and to ensure consistent delivery of information.

## The non-offering prospectus

A SPAC must file a non-offering prospectus regarding the proposed qualifying acquisition, assuming securities are not being publicly offered in conjunction with the qualifying transaction. TSX requires that the prospectus include information on whether a formal valuation was completed for the qualifying acquisition and, if so, whether the valuation was independent and the method used (conversely, if there was no valuation, the prospectus should disclose how the consideration paid for the qualifying acquisition was determined). Just as with the IPO prospectus, the non-offering prospectus must comply with applicable securities laws, which in the case of the non-offering prospectus will include three years of financial statements of the target and a pro forma statement for the combined issuer.

## Completing the transaction

The resulting issuer from the completed qualifying transaction must meet TSX's original listing conditions. Once the qualifying transaction has been completed, the resulting issuer will be subject to all ongoing listing requirements designated by TSX.

## SPAC timeline

The following time periods represent the optimal time periods to complete the SPAC IPO process in Canada (actual times may differ).

### Form Company (1 month)

- Develop investment thesis
- Form company with initial sponsor investment
- Sponsors assume management roles and form Board of Directors

### IPO Process (1 month)

- Draft prospectus
- Revise based on comments
- Roadshow and IPO closing
- Source acquisition
- No pre-identified acquisitions prior to IPO
- Transactions must be 80% of proceeds in escrow

### Source Acquisition (timing variable)

- Public announcement made following definitive agreement
- Draft non-offering prospectus and proxy circular
- Proxy circular filed with TSX and non-offering prospectus filed with securities regulators that detail terms of deal and target company and resulting issuer
- Revise prospectus based on comments
- Shareholder vote

# Appendix A - TSX Rules

Part X special purpose acquisition corporations (SPACs):

## Scope of Policy

Listing a SPAC on the Exchange is a two-stage process. The first stage involves the filing and clearing of an IPO prospectus, the completion of the IPO and the listing of the SPAC's securities on the Exchange. The second stage involves the identification and completion of a qualifying acquisition.

**The main headings in this Part X are:**

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**A. General Listing Matters**

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**B. Original Listing Requirements**

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**C. Continued Listing Requirements Prior to Completion of a Qualifying Acquisition**

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**D. Completion of a Qualifying Acquisition**

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**E. Liquidation Distribution and Delisting Upon Failure to Meet Timelines for a Qualifying Acquisition**

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**F. Continued Listing Requirements Following Completion of a Qualifying Acquisition**

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## A. General Listing Matters

### Securities to be Listed Sec. 1001.

To secure a listing of its securities on the Exchange, a SPAC must complete a listing application which, together with supporting documentation and information, must demonstrate that it is able to meet the Exchange's original listing requirements for SPACs, as detailed in [Sections 1003 to 1018](#). The listing application, preliminary prospectus, draft escrow agreement governing the IPO proceeds and personal information forms for all insiders of the SPAC should be filed with the Exchange concurrently with the filing of the preliminary prospectus with the applicable Canadian securities regulatory authorities.

### Exercise of Discretion Sec. 1002.

The Exchange may, in its discretion, take into account any factors it considers relevant in assessing the merits of a listing application and may grant or deny an application notwithstanding the prescribed original listing requirements. In exercising its discretion, the Exchange must be satisfied that the fundamental investor protections in this Part X are met. In addition, the Exchange will consider:

- a. The experience and track record of the officers and directors of the SPAC;
- b. The nature and extent of officers' and directors' compensation;
- c. The extent of the founding securityholders' equity ownership in the SPAC, which is generally expected to be an aggregate equity interest of: (i) not less than 10% of the SPAC immediately following closing of the IPO; and (ii) not more than 20% of the SPAC immediately following closing of the IPO, taking into account the price at which the founding securities are purchased and the resulting economic dilution;
- d. The amount of time permitted for completion of the qualifying acquisition prior to the liquidation distribution; and
- e. The gross proceeds publicly raised under the IPO prospectus.

## **B. Original listing Requirements**

### **IPO**

#### **Sec. 1003.**

A SPAC must, concurrently with listing on the Exchange, raise a minimum of \$30,000,000 through an IPO of shares or units; if units are issued, each unit may consist of one share and no more than two share purchase warrants.

#### **Sec. 1004.**

Prior to listing on the Exchange, the founding securityholders must subscribe for units, shares or warrants of the SPAC. The terms of the initial investment must be disclosed in the IPO prospectus. The founding securityholders must agree not to transfer any of their founding securities prior to the completion of a qualifying acquisition. In the event of liquidation and delisting, the founding securityholders must agree that their founding securities shall not participate in a liquidation distribution.

#### **Sec. 1005.**

The shares, warrants, rights, units or other securities to be listed on the Exchange must be qualified by a prospectus received by the issuer's principal regulator.

### **No Operating Business**

#### **Sec. 1006.**

A SPAC seeking listing on the Exchange must not carry on an operating business. A SPAC may be in the process of reviewing a potential qualifying acquisition, but may not have entered into a written or oral binding acquisition agreement with respect to a potential qualifying acquisition. Every SPAC seeking a listing on the Exchange must include a statement in its IPO prospectus that as of the date of filing, the SPAC has not entered into a written or oral binding acquisition agreement with respect to a potential qualifying acquisition. A SPAC may have identified a target business sector or geographic area in which to make a qualifying acquisition, provided that it discloses this information in its IPO prospectus.

### **Jurisdiction of Incorporation**

#### **Sec. 1007.**

The Exchange will consider the jurisdiction of incorporation of a SPAC as part of the listing application process. The Exchange recommends that SPACs seeking listing on the Exchange be incorporated under Canadian federal or provincial corporate laws. Where a SPAC is incorporated under laws outside of Canada and wishes to list on the Exchange, the Exchange recommends that it obtain a preliminary opinion as to whether the jurisdiction of incorporation is acceptable to the Exchange.

### **Capital Structure**

#### **Sec. 1008.**

A SPAC seeking listing on the Exchange must satisfy all of the criteria below:

- a. the security provisions must contain:
  - i. a redemption (or substantially similar) feature, pursuant to which shareholders (other than founding securityholders in respect of their founding securities) may, in the event such qualifying acquisition is completed within the time frame set out in [Section 1022](#), elect that each share held be redeemed for an amount at least equal to: (1) the aggregate amount then on deposit in the escrow account (net of any applicable taxes and direct expenses related to the exercise of the redemption right), divided by (2) the aggregate number of shares then outstanding, excluding founding securities and

- ii. a liquidation distribution (or substantially similar) feature, pursuant to which shareholders (other than the founding securityholders in respect of their founding securities) must, if the qualifying acquisition is not completed within the permitted time set out in **Section 1022**, be entitled to receive, for each share held, an amount at least equal to: (1) the aggregate amount then on deposit in the escrow account (net of any applicable taxes and direct expenses related to the liquidation distribution), divided by (2) the aggregate number of shares then outstanding excluding the founding securities.

Notwithstanding the foregoing, the SPAC may establish a limit as to the maximum number of shares with respect to which a shareholder, together with any affiliates or persons acting jointly or in concert, may exercise a redemption right, provided that such limit (i) may not be set at lower than 15% of the shares sold in the IPO; and (ii) is disclosed in the IPO prospectus. For greater certainty, any redemption limit established by a SPAC must apply equally to all shareholders entitled to a redemption right.

Exchange discretion with respect to the requirements of this Subsection may only be exercised after discussions with, and the concurrence of, the OSC.

- b. in addition to **Section 1008(a)** where units are issued in the IPO:
  - i. the share purchase warrants must not be exercisable prior to the completion of the qualifying acquisition;
  - ii. the share purchase warrants must expire on the earlier of: (x) a date specified in the IPO prospectus and (y) the date on which the SPAC fails to complete a qualifying acquisition within the permitted time set out in **Section 1022**; and
  - iii. share purchase warrants may not have an entitlement to the escrowed funds upon liquidation of the SPAC.

## **Prohibition of Debt Financing Sec. 1009.**

The SPAC shall not be permitted to obtain any form of debt financing (excluding ordinary course short term trade or accounts payables) other than contemporaneous with, or after, completion of its qualifying acquisition. A credit facility may be entered into prior to completion of a qualifying acquisition, but may only be drawn down contemporaneous with, or after, completion of a qualifying acquisition.

Despite the foregoing, a SPAC may obtain unsecured loans on reasonable commercial terms, including from founding securityholders or their affiliates, up to a maximum aggregate principal amount equal to 10% of the funds escrowed under **Section 1010** repayable in cash no earlier than the closing of the qualifying acquisition, provided that (1) such limit is disclosed in the IPO prospectus; and (2) any such debt financing obtained by the SPAC shall not have recourse against the escrowed funds.

Every SPAC seeking a listing on the Exchange must include a statement in its IPO prospectus that it will not obtain any form of debt financing other than in accordance with this **Section 1009**.

## **Use of Proceeds Raised in the IPO and Escrow Requirements Sec. 1010.**

Immediately upon listing on the Exchange, a SPAC must place at least 90% of the gross proceeds raised in its IPO; and the underwriter's deferred commissions (in accordance with **Section 1013**), in escrow with an escrow agent acceptable to the Exchange. The following entities, if Canadian, are examples of the types of escrow agents that are acceptable to the Exchange: trust companies, financial institutions and law firms.

## **Sec. 1011.**

The escrow agent must invest the escrowed funds in permitted investments. The SPAC must disclose the proposed nature of this investment in its IPO prospectus, as well as any intended use of the interest or other proceeds earned on the escrowed funds from the permitted investments.

## **Sec. 1012.**

The escrow agreement governing the escrowed funds must provide for:

- a. the termination of the escrow and release of the escrowed funds on a pro rata basis to shareholders who exercise their redemption rights in accordance with [Section 1008\(a\)\(i\)](#) and the remaining escrowed funds to the SPAC if the SPAC completes a qualifying acquisition within the permitted time set out in [Section 1022](#); and
- b. the termination of the escrow and the distribution of the escrowed funds to shareholders (other than the founding securityholders in respect of their founding securities) in accordance with the terms of [Sections 1031 to 1033](#) if the SPAC fails to complete a qualifying acquisition within the permitted time set out in [Section 1022](#).

In accordance with [Section 1001](#), a draft of the escrow agreement must be submitted to the Exchange for pre-clearance.

## **Sec. 1013.**

The underwriters must agree to defer and deposit a minimum of 50% of their commissions from the IPO as part of the escrowed funds. The deferred commissions will only be released to the underwriters upon completion of a qualifying acquisition within the permitted time set out in [Section 1022](#). If the SPAC fails to complete a qualifying acquisition within the permitted time set out in [Section 1022](#), the deferred commissions placed in escrow will be distributed to the holders of the applicable shares as part of the liquidation distribution. Shareholders exercising their redemption rights will be entitled to their pro rata portion of the escrowed funds including any deferred commissions.

## **Sec. 1014.**

The proceeds from the IPO that are not placed in escrow and interest or other proceeds earned on the escrowed funds from permitted investments may be applied as payment for administrative expenses incurred by the SPAC in connection with the IPO, for general working capital expenses and for the identification and completion of a qualifying acquisition.

## **Public Distribution**

### **Sec. 1015.**

A SPAC seeking listing on the Exchange must satisfy all of the criteria below:

- a. at least 1,000,000 freely tradeable securities are held by public holders;
- b. the aggregate market value of the securities held by public holders is at least \$30,000,000; and
- c. at least 150 public holders of securities, holding at least one board lot each.

## **Pricing**

### **Sec. 1016.**

A SPAC seeking listing on the Exchange must issue securities pursuant to the IPO for a minimum price of \$2.00 per share or unit.

## **Other Requirements**

### **Sec. 1017.**

In connection with its original listing, a SPAC will be subject to the following Sections of this Manual:

- a. [Section 325](#) - Management
- b. [Section 327](#) - Escrow Requirements
- c. [Section 328](#) - Restricted Shares
- d. [Sections 338-351](#) - The Listing Application Procedure
- e. [Sections 352-356](#) - Approval of Listing and Posting Securities
- f. [Sections 358-359](#) - Public Availability of Documents
- g. [Section 360](#) - Provincial Securities Laws

## Sec. 1018.

A SPAC seeking a listing on the Exchange will not be permitted to adopt a security based compensation arrangement prior to the completion of a qualifying acquisition.

## C. Continued Listing Requirements Prior to Completion of a Qualifying Acquisition

### Additional Equity by way of Rights Offering Only

#### Sec. 1019.

Prior to completion of a qualifying acquisition, the Exchange will permit a listed SPAC to raise additional funds pursuant to the issuance or potential issuance of equity securities from treasury provided that: (i) the issuance is by way of rights offering in accordance with the requirements in **Part VI** of this Manual and (ii) at least 90% of the funds raised are placed in escrow in accordance with the provisions of **Sections 1010 to 1014**. Contemporaneous with or following completion of a qualifying acquisition, a listed SPAC may raise additional funds in accordance with **Part VI** of this Manual.

#### Sec. 1020.

The Exchange will only permit a listed SPAC to raise additional funds pursuant to the issuance or potential issuance of equity securities from treasury pursuant to **Section 1019** to fund a qualifying acquisition and/or administrative expenses of the SPAC.

### Other Requirements

#### Sec. 1021.

Prior to completion of its qualifying acquisition, in addition to this Part X, a listed SPAC will be subject to the following Parts of this Manual:

- a. **Parts IV and V**, other than **Section 464** in respect of the requirement to hold an annual meeting provided that an annual update is disseminated via press release and available on the SPAC's website;
- b. **Part VI**, other than:
  1. **Section 624**(h) in respect of the requirement to provide at least 21 days' notice in advance of a shareholders' meeting to holders of Restricted Securities;
  2. **Section 624**(l) in respect of the requirement of certain take-over protective provisions, also referred to as coat-tail provisions; and
  3. **Section 624**(m) in respect of the prohibition on the issuance of shares with greater voting rights than any listed shares for the issuance of the founding securities.

Until completion of a qualifying acquisition, a listed SPAC may only issue and make equity securities issuable in accordance with **Sections 1019 to 1020**. Security based compensation arrangements may not be adopted until completion of a qualifying acquisition;

- c. **Part VII** with the exception of **Subsections 710(a)(ii) and 710(a)(iii)**;
- d. **Part IX**; and
- e. Applicable listing fees and forms.

## D. Completion of a Qualifying Acquisition

### Permitted Time for Completion of a Qualifying Acquisition

#### Sec. 1022.

A SPAC must complete a qualifying acquisition within 36 months of the date of closing of the distribution under its IPO prospectus. Where the qualifying acquisition is comprised of more than one acquisition, the SPAC must complete each of the acquisitions comprising the qualifying acquisition within 36 months of the date of closing of the distribution under its IPO prospectus, in addition to meeting the requirements of [Section 1023](#).

### Fair Market Value of a Qualifying Acquisition

#### Sec. 1023.

The businesses or assets forming the qualifying acquisition must have an aggregate fair market value equal to at least 80% of the aggregate amount then on deposit in the escrow account, excluding deferred underwriting commissions held in escrow and any taxes payable on the income earned on the escrowed funds. Where the qualifying acquisition is comprised of more than one acquisition, and the multiple acquisitions are required to satisfy the aggregate fair market value of a qualifying acquisition, these acquisitions must close concurrently and within the time frame in [Section 1022](#).

### Shareholder and Other Approvals

#### Sec. 1024.

The qualifying acquisition must be approved by: (i) a majority of directors unrelated to the qualifying acquisition; and (ii) a majority of the votes cast by shareholders of the SPAC at a meeting duly called for that purpose. Shareholder approval of the qualifying acquisition is not required where the SPAC has placed at least 100% of the gross proceeds raised in its IPO and any additional equity raised pursuant to [Section 1019](#) in escrow in accordance with [Section 1010](#). The shareholder approval requirements set out in Parts V and VI of the Manual will not apply to transactions concurrently effected with the qualifying acquisition, provided that they are disclosed in the prospectus for the resulting issuer and shareholder approval is not otherwise required for the qualifying acquisition. Where the qualifying acquisition is comprised of more than one acquisition, each acquisition must be approved.

#### Sec. 1025.

The SPAC's IPO prospectus must disclose whether shareholder approval will be required as a condition of the completion of the qualifying acquisition and the shareholders entitled to vote upon the matter. If a qualifying acquisition is subject to shareholder approval, the SPAC must prepare an information circular containing prospectus level disclosure of the resulting issuer assuming completion of the qualifying acquisition. This information circular must be submitted to the Exchange for pre-clearance prior to distribution.

#### Sec. 1026.

The SPAC may impose additional conditions on the completion of a qualifying acquisition, provided that the conditions are described in the prospectus or information circular describing the qualifying acquisition. For example, the SPAC may impose a condition not to proceed with a proposed qualifying acquisition if more than a pre-determined percentage of public shareholders exercise their redemption rights.

#### Sec. 1027.

In accordance with [Section 1008](#), holders of shares (other than founding securityholders in respect of their founding securities) must be entitled to redeem their shares for their pro rata portion of the escrowed funds in the event that the qualifying acquisition is completed. Subject to applicable laws, shareholders who exercise their redemption rights shall be paid within 30 calendar days of completion of the qualifying acquisition and such redeemed shares shall be cancelled.



## **Prospectus Requirement for Qualifying Acquisition Sec. 1028.**

The SPAC must prepare and file a prospectus containing disclosure regarding the SPAC and its proposed qualifying acquisition with the Canadian securities regulatory authority in each jurisdiction in which the SPAC and the resulting issuer is and will be a reporting issuer assuming completion of the qualifying acquisition and, if applicable, in the jurisdiction in which the head office of the resulting issuer assuming completion of the qualifying acquisition is located in Canada. Completion of the qualifying acquisition without a receipt for the final prospectus will result in the delisting of the SPAC.

If a qualifying acquisition is subject to shareholder approval, the SPAC must obtain a receipt for its final prospectus from the applicable securities regulatory authorities prior to mailing the information circular described in [Section 1025](#).

If a qualifying acquisition is not subject to shareholder approval, the SPAC must: (i) mail a notice of redemption to shareholders and make its final prospectus publicly available on its website at least 21 days prior to the deadline for redemption; and (ii) send by prepaid mail or otherwise deliver the prospectus to shareholders no later than midnight (Toronto time) on the second business day prior to the deadline for redemption, which delivery may be effected electronically in compliance with National Policy 11-201 – Electronic Delivery of Document. The notice of redemption must be pre-cleared by TSX prior to mailing.

Exchange discretion with respect to the requirements of this Section may only be exercised after discussions with, and the concurrence of, the OSC.

## **Exchange Approval Sec. 1029.**

The issuer resulting from the completion of the qualifying acquisition by the SPAC must meet the Exchange's original listing requirements set out in [Part III](#) of this Manual. The Exchange will provide the issuer with up to 180 days from the completion of the qualifying acquisition to provide evidence that it meets the Public Distribution Requirements set out in [Section 315](#), failing which the issuer will generally be put under a remedial delisting review as described in [Part VII](#).

Failure to obtain the Exchange's approval of the listing of the resulting issuer prior to the completion of the qualifying acquisition will result in the delisting of the SPAC. For greater certainty, a qualifying acquisition may include a merger or other reorganization or an acquisition of the SPAC by a third party.

## **Escrow Requirements Sec. 1030.**

Upon completion of the qualifying acquisition, the resulting issuer shall be subject to the Exchange's Escrow Policy.

## **E. Liquidation Distribution and Delisting Upon Failure to Meet Timelines for a Qualifying Acquisition**

### **Sec. 1031.**

If a listed SPAC fails to complete a qualifying acquisition within the permitted time set out in [Section 1022](#), subject to applicable laws, it must complete a liquidation distribution within 30 calendar days after the end of such permitted time, pursuant to which the escrowed funds must be distributed to the holders of shares (other than founding securityholders in respect of their founding securities) on a pro rata basis, and in accordance with [Section 1032](#).

### **Sec. 1032.**

In accordance with **Section 1004**, the founding securityholders may not participate in any liquidation (or redemption) distribution with respect to any of their founding securities. In addition, in accordance with **Section 1013**, all deferred underwriter commissions held in escrow will be part of the liquidation (or redemption) distribution. A liquidation (or redemption) distribution therefore includes the minimum of 90% of the gross proceeds raised in the IPO, as required under **Section 1010** and 50% of the underwriters' commissions as described in this Section. Any interest or other proceeds earned through permitted investments that remains in escrow shall also be part of the liquidation (or redemption) distribution. The amount distributed on a liquidation distribution shall however be net of any applicable taxes and direct expenses related to the liquidation distribution.

### **Sec. 1033.**

If a listed SPAC fails to complete a qualifying acquisition within the permitted time set out in **Section 1022**, the Exchange will delist the SPAC's securities on or about the date on which the liquidation distribution is completed.

## **F. Continued Listing Requirements Following Completion of a Qualifying Acquisition**

### **Sec. 1034.**

Once a qualifying acquisition has been completed, the resulting issuer will be subject to all continued listing requirements in this Manual without exception.

# Directory Of Contacts

## BUSINESS DEVELOPMENT

To inquire about listing on Toronto Stock Exchange or TSX Venture Exchange, please contact a member of our Business Development team from the appropriate sector category:

### Diversified Industries

T 416 947-4279  
diversified@tmx.com

### Technology & Innovation

T 416 814-8874  
technology@tmx.com

### Energy

T 403 218-2805  
energy@tmx.com

### Mining

T 416 947-4477  
mining@tmx.com

### Exchange Traded Funds

T 416 814-8874  
etf@tmx.com

## OTHER LISTING GUIDES

### Guide to Listing

### Cross-border Legal and Tax Considerations for U.S. Issuers

### Dual-Listing Guide

## INTERNATIONAL INQUIRIES

### Asia

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### Europe, Middle East, Africa

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### Israel

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### South America

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### United States

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## RELATIONSHIP MANAGEMENT

If you are already an issuer on Toronto Stock Exchange or TSX Venture Exchange, please contact your designated Head of TSX Company Services with questions regarding your listing or the products and services available to you.



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