



Guide to Special Purpose Acquisition Corporations

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Table of Contents

INTRODUCTION TO SPACs	2
WHAT IS A SPAC?	2
WHO SHOULD SPONSOR A SPAC?	2
WHY MIGHT INVESTORS BE ATTRACTED TO SPACs?	3
WHAT ARE THE ADVANTAGES OF LISTING A SPAC ON TSX?	3
TSX SPAC RULES	4
MINIMUM OFFERING SIZE AND DISTRIBUTION REQUIREMENTS	4
REQUIRED DOCUMENTS	4
TSX DISCRETION	4
NO PRIOR OPERATING ACTIVITIES	4
JURISDICTION OF INCORPORATION	5
CAPITAL STRUCTURE	5
PROHIBITION ON DEBT AND SECURITY BASED COMPENSATION	5
USE OF PROCEEDS AND ESCROW REQUIREMENTS	6
SUBSCRIPTION BY FOUNDING SHAREHOLDERS	6
RIGHTS OFFERINGS ONLY TO RAISE ADDITIONAL FUNDS	6
PERMITTED TIME FOR COMPLETION OF A QUALIFYING ACQUISITION	6
FAIR MARKET VALUE OF A QUALIFYING ACQUISITION	7
SHAREHOLDER AND OTHER APPROVALS	7
PROSPECTUS REQUIREMENT FOR QUALIFYING ACQUISITION	7
THE SPAC IPO PROCESS	8
FORMING A SPONSOR GROUP AND SELECTING ADVISORS	8
FORMING A SPAC	8
THE IPO PROSPECTUS	8
MARKETING AND CLOSING THE IPO	9
THE SPAC QUALIFYING ACQUISITION PROCESS	9
IDENTIFYING AN ACQUISITION TARGET	10
DUE DILIGENCE	10
CONTINUOUS DISCLOSURE OBLIGATIONS	10
PURCHASE AGREEMENT	10
THE INFORMATION CIRCULAR	11
THE NON-OFFERING PROSPECTUS	11
THE SHAREHOLDER MEETING	11
COMPLETING THE TRANSACTION	11
SPAC TIMELINE	12
THE US SPAC EXPERIENCE	13
APPENDIX A - TSX RULES	14
PART X SPECIAL PURPOSE ACQUISITION CORPORATIONS (SPACs)	14
SCOPE OF POLICY	14
A. GENERAL LISTING MATTERS	14
B. ORIGINAL LISTING REQUIREMENTS	15
C. CONTINUED LISTING REQUIREMENTS PRIOR TO COMPLETION OF A QUALIFYING ACQUISITION	18
D. COMPLETION OF A QUALIFYING ACQUISITION	19
E. LIQUIDATION DISTRIBUTION AND DELISTING UPON FAILURE TO MEET TIMELINES FOR A QUALIFYING ACQUISITION	21
F. CONTINUED LISTING REQUIREMENTS FOLLOWING COMPLETION OF A QUALIFYING ACQUISITION	21

Introduction to SPACs

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

- What is a SPAC?
- Who should sponsor a SPAC?
- Why might investors be attracted to SPACs?
- What are the advantages of listing a SPAC on Toronto Stock Exchange (“**TSX**”)?

What is a SPAC?

A SPAC is a publicly traded shell corporation that has no operating business (current or previous) that must use the money raised from its initial public offering (“**IPO**”) to finance an acquisition of an operating business. SPACs typically have the following characteristics:

- at least 90% of the proceeds from the SPAC’s IPO is set aside and invested in liquid and low risk securities (the “**Escrowed Funds**”);
- a meeting of shareholders must be held to approve any proposed acquisition;
- if a non-founder shareholder votes against a proposed acquisition, they have the right to receive their *pro rata* share of the Escrowed Funds; and
- if an acquisition is not completed within the defined time frame (typically two to three years), shareholders have the right to receive their *pro rata* share of the Escrowed Funds (excluding any shares held by the founders of the SPAC).¹

In the years immediately preceding the global credit crisis and capital market turmoil of 2008 and the first half of 2009, the popularity of SPACs in the United States surged as a result of the public’s desire to participate in private equity-type investments and the attractiveness of SPAC investments to hedge funds. In fact, between 2003 and 2008, there were approximately 160 SPAC IPOs in the United States that raised over US\$21 billion. In 2008, each of New York Stock Exchange and the NASDAQ Stock Market announced that they would begin accepting listings for SPACs. TSX finalized its rules permitting SPACs on December 19, 2008.

Who should sponsor a SPAC?

SPACs are usually sponsored by 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 some (or all) of the following characteristics: 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 transaction, 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.

¹ These characteristics are intended to be general in nature and outline a possible SPAC offering. The specific regulatory requirements of a SPAC listed on TSX are attached as appendix “A” and reviewed in the section “TSX SPAC RULES”.

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:

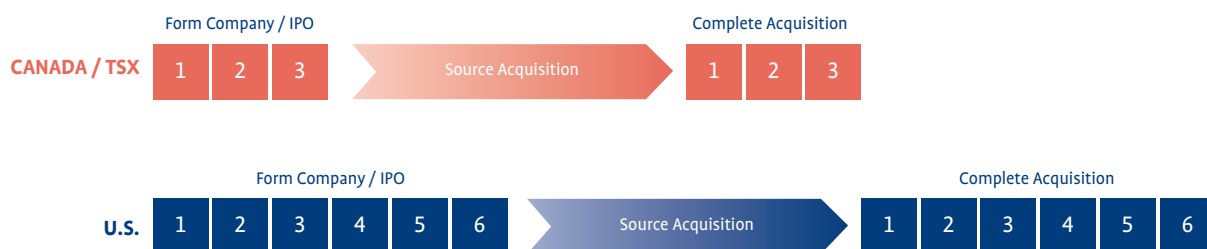
- access to financing through the Escrowed Funds and the ability to issue additional securities in connection with an acquisition;
- support of management of the acquisition target through the avoidance of integration issues often associated with a strategic buyer;
- profile and visibility amongst mergers 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 above under the heading “What is a SPAC?” provide for investor protections (through the escrow requirements and right to all or part of such funds on a “no” vote or failure to complete an acquisition) 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?

Due to the size of TSX and Canadian markets, smaller issuers will naturally garner more attention and coverage. Furthermore, 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).

In addition, Canadian retail investors are already familiar with TSX Venture Exchange’s Capital Pool Company (“**CPC**”) program, which essentially facilitates micro-SPACs. The CPC program originated with the Junior Capital Pool Program in Alberta over 20 years ago. Since its inception, approximately 2,500 CPCs have been formed nationally and listed on TSX Venture Exchange, with over 1,500 of them subsequently completing a qualifying transaction. In addition, more than 230 of these CPCs have graduated from TSX Venture Exchange to TSX.

TSX SPAC Rules

Minimum offering size and distribution requirements

A SPAC must raise a minimum of \$30 million dollars from at least 300 public shareholders via its IPO. In addition, at least 1,000,000 freely tradable securities must be held by public holders and be issued for no less than \$2.00 a share or unit. A SPAC is free to issue either common shares or units (consisting of a common share and up to two warrants).

Required documents

To secure a listing with TSX, a SPAC must submit the following:

- a TSX listing application in draft form;
- the original listing application fee;
- the preliminary prospectus;
- a draft escrow agreement governing the IPO proceeds;
- certified copies of all charter documents, including articles of incorporation and equivalent documents; and
- a personal information form for each officer, director or 10 percent holder of the SPAC.

TSX discretion

TSX 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 any application. TSX must, in exercising its discretion, be satisfied that the fundamental investor protection provisions are met. TSX will specifically consider the following factors when reviewing a listing application:

- the experience and track record of the officers and directors of the SPAC;
- the nature and extent of officers' and directors' compensation;
- the extent of the founding shareholders' 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;
- the amount of time permitted for completion of the qualifying acquisition; and
- the gross proceeds publicly raised under the IPO prospectus.

No prior operating activities

TSX prohibits a SPAC from carrying on an operating business prior to listing. A SPAC may be in the process of reviewing potential qualifying acquisitions, but may not have entered into any written or oral binding acquisition agreements. The IPO prospectus must contain a statement certifying that the foregoing conditions regarding acquisition agreements have been met. The IPO prospectus must also disclose if the SPAC has identified a target business sector or geographic area in which to make a qualifying acquisition. It should be noted that the foregoing restriction does not prohibit a SPAC from having entered into confidentiality agreements and non-binding letters of intent regarding a potential acquisition.

Jurisdiction of incorporation

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

Capital structure

A SPAC must satisfy all of the criteria below:

- the security provisions must contain:

- a **conversion feature**, pursuant to which shareholders (other than founding shareholders) who voted against a proposed qualifying acquisition at a duly called meeting of shareholders may, in the event such qualifying acquisition is completed within the time frame, elect that each security held be converted into an amount at least equal to: (i) the aggregate amount then on deposit in the escrow account (net of any applicable taxes and direct expenses related to the exercise of the conversion right), divided by (2) the aggregate number of securities then outstanding; and
- a **liquidation distribution feature**, pursuant to which, if the qualifying acquisition is not completed within the permitted time frame, shareholders (other than the founding shareholders in respect of their founding securities) are entitled to receive, for each security held, an amount at least equal to: (i) 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 securities then outstanding less the securities held by the founding shareholders;

- where units, including share purchase 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) other than those that are contemporaneous with, or after, the completion of its qualifying acquisition. TSX does permit 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.² The escrow agent must invest the escrowed funds in permitted investments (as described in the IPO prospectus, which prospectus must also describe any intended use of the interest earned on the escrowed funds from the 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 conversion 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.

Where share escrow policies of TSX are applicable, 10% (rather than 25%) of the founding securities will be released at the date of closing of the qualifying acquisition. The remainder of the founding securities will be released over the following 18 months. Securities other than the founding securities will be subject to the regular escrow requirements and release schedule, where applicable.

Rights offerings only to raise additional funds

Prior to completion of a qualifying acquisition, a SPAC may only raise additional funds through the issuance of securities from treasury if: (i) the issuance is by way of rights offering; (ii) at least 90% of the funds raised are placed in escrow; and (iii) the proceeds are to be used to fund a qualifying acquisition and/or administrative expenses of the SPAC.

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.

² The following entities, if Canadian, are examples of the types of escrow agents that are acceptable to the TSX: trust companies, financial institutions and law firms.

Fair market value of a qualifying acquisition

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 permitted time frame.

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 (excluding the founding shareholders) at a meeting duly called for that purpose. Where the qualifying acquisition is comprised of more than one acquisition, each acquisition must be approved. The founding shareholders will not be entitled to vote any of their securities with respect to the approval of the qualifying acquisition.

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.

In connection with the shareholder meeting at which there will be a vote on a qualifying acquisition, 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. 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.

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 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 and director residency and tax structuring considerations may suggest a particular provincial regime is appropriate. 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 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.

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, one would expect a two week marketing period to commence (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 Process



Identifying an acquisition target

Following the closing of the IPO, the SPAC's focus will be on identifying and completing an acquisition (or acquisitions). The acquisition (or acquisitions) 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 (excluding deferred underwriting commissions and any taxes payable on the income earned on the escrowed funds). 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, extensive due diligence on a proposed acquisition target will be necessary (including financial, tax and legal due diligence). The due diligence process will be 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 (and related management discussion and analysis) and 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 (or targets). 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 conversion rights on a "no" vote;
- 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

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 vote against the proposed qualifying acquisition and 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 if there are not securities being offered. TSX requires that the prospectus include information on whether a 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.

The shareholder meeting

At a duly called meeting for the purpose of voting on a qualifying acquisition, the transaction must be approved by both the majority of directors unrelated to the qualifying acquisition and the majority of shareholders entitled to vote (which excludes founders). Where the qualifying acquisition is comprised of several companies, each acquisition must be approved. If a SPAC wishes to impose additional conditions on the approval of the acquisition(s) then they must be described in the information circular.

Completing the transaction

The resulting issuer from the completed qualifying transaction must meet TSX's original listing conditions. Failure to get TSX approval before completing the qualifying acquisition will result in the delisting of the SPAC. 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 shortest periods one can reasonably expect 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 (2 months)

- 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

The U.S. SPAC Experience³

SPACs in the U.S. have existed since the early 1990s with the first SPAC IPO completed in 1993. A total of 13 SPACs completed IPOs in the 1990s, with 12 out of the 13 successfully consummating business combinations. SPACs offered an attractive opportunity for public investors to participate in private equity like transactions with liquidity and limited risk due to the significant protections afforded by the SPAC structure.

In August 2003, the SPAC market re-emerged in the U.S. and over the next five years over 161 SPAC IPOs were completed, raising over US\$21 billion in gross proceeds. As the SPAC market evolved in the U.S., SPAC IPOs increased significantly in size. By 2008 the average size of a SPAC IPO had grown to US\$226 million compared to US\$40 million in 2004.

Initially, retail investors were the primary investors in SPAC IPOs; however with the rise in offering size, a concentrated group of hedge funds became the primary investors in SPACs. Many of these hedge funds were more interested in trading and arbitrage strategies surrounding the shares and warrants, as opposed to the acquisition transaction that was ultimately being voted on. Additionally, with the dramatic decline in the global equity markets in 2008, many investors were interested exclusively in receiving their cash back in order to satisfy redemption requirements and to reduce overall portfolio risk. As a result, many SPACs faced challenges in 2008 and 2009 in obtaining shareholder approval for acquisitions.

To mitigate some of the challenges posed by hedge fund investment in SPACs, founders considering listing a SPAC on the TSX should consult with their legal and financial advisors to consider certain structure features they may choose to incorporate.

³ This portion of the guide was prepared with the generous assistance of Pali Capital.

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:

- A. General Listing Matters
- B. Original Listing Requirements
- C. Continued Listing Requirements Prior to Completion of a Qualifying Acquisition
- D. Completion of a Qualifying Acquisition
- E. Liquidation Distribution and Delisting Upon Failure to Meet Timelines for a Qualifying Acquisition
- F. Continued Listing Requirements Following Completion of a Qualifying Acquisition

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 and/or units to be listed on the Exchange must be qualified by a prospectus receipted 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 conversion feature, pursuant to which securityholders (other than founding securityholders) who voted against a proposed qualifying acquisition at a duly called meeting of securityholders may, in the event such qualifying acquisition is completed within the time frame set out in Section 1022, elect that each security held be converted into 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 conversion right), divided by (2) the aggregate number of securities then outstanding; and
- (ii) a liquidation distribution feature, pursuant to which securityholders (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 security 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 securities then outstanding less the founding securities;

Exchange discretion with respect to the requirements of this Subsection may only be exercised after discussions with, and the concurrence of, the Ontario Securities Commission (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 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 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. 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 unrelated to the transaction and 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 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 securityholders who exercise their conversion 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 securityholders 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 securities as part of the liquidation distribution. Securityholders exercising their conversion 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 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 300 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 Funds 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 of 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 additional funds to be raised by a listed SPAC 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;
- (b) Part VI, provided that, until completion of a qualifying acquisition, a listed SPAC may only issue and make securities issuable in accordance with Sections 1019 to 1020. Security based compensation arrangements may not be adopted until completion of a qualifying acquisition, for which securityholder approval will be required in accordance with Section 613;
- (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.

Securityholder 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 securityholders of the SPAC at a meeting duly called for that purpose. Where the qualifying acquisition is comprised of more than one acquisition, each acquisition must be approved. The founding securityholders shall not be entitled to vote any of their securities with respect to the approval of the qualifying acquisition.

Sec. 1025.

The SPAC may impose additional conditions on the approval of a qualifying acquisition, provided that the conditions are described 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.

Sec. 1026.

In connection with the securityholder meeting at which there will be a vote on a qualifying acquisition, 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. 1027.

In accordance with Section 1008, holders of securities who vote against the qualifying acquisition, must be entitled to convert their securities for their pro rata portion of the escrowed funds in the event that the qualifying acquisition is completed. Subject to applicable laws, securityholders who exercise their conversion rights shall be paid within 30 calendar days of completion of the qualifying acquisition and such converted securities 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. 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 1026. If a receipt for the final prospectus is not obtained, completion of the qualifying acquisition will result in the delisting of the SPAC.

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. 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.

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 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 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 distribution. A liquidation 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 earned through permitted investments that remains in escrow shall also be part of the liquidation 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.

