



SPECIAL PURPOSE ACQUISITION CORPORATION ("SPAC") PROGRAM

What is a SPAC?

The **Special Purpose Acquisition Corporation** is an investment vehicle allowing public investors 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 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 are the benefits of a SPAC?

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

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



HOW IT WORKS

Phase 1 - Establishing the SPAC

Creating the SPAC

- Founder group of sophisticated individuals, with senior-management level business and public company experience, incorporate a shell company - the SPAC
- Founders then put up a minimum amount of seed capital and also prepare an IPO prospectus document
- Founders file a SPAC prospectus with the applicable securities regulator and apply for listing on Toronto Stock Exchange

Selling the shares

- Prospectus outlines intention to raise a minimum of CDN \$30,000,000 by selling SPAC securities at a minimum price of CDN \$2.00 per share or unit; unit can consist of one common share and no more than two share purchase warrants
- At least 1,000,000 securities are to be held by 300 public board-lot shareholders, free of any resale restrictions, with aggregate market value of the securities held by public holders to be at least CDN \$30,000,000
- Once distribution has been completed, SPAC securities are listed for trading on Toronto Stock Exchange
- Immediately upon listing, the SPAC places at least 90% of gross proceeds raised in the IPO into escrow, which must include 50% of underwriters' commissions, with a designated party acceptable to Toronto Stock Exchange to act as a trustee
- Founders must hold an equity position between 10% and 20% of the SPAC post-IPO

Phase 2 - The qualifying acquisition

Completing the acquisition

- SPAC founders must identify an appropriate business/asset as its qualifying acquisition within 36 months
- Business/assets comprising qualifying acquisition must have an aggregate fair market value equal to at least 80% of value of funds in escrow
- SPAC prepares a draft information circular with prospectus-level disclosure on resulting issuer, which is then submitted to Toronto Stock Exchange for pre-clearance
- SPAC must also file a non-offering prospectus for the resulting issuer with the relevant securities commissions, and obtain a receipt for the prospectus prior to mailing information circular to public shareholders
- SPAC may only complete qualifying acquisition if a majority of public holders of SPAC securities approve that transaction at a duly called security holder meeting
- Founding shareholders are not entitled to vote any of their securities with respect to approval of qualifying acquisition
- SPAC may impose a condition not to proceed with proposed qualifying acquisition if more than a pre-determined percentage of public holders of securities vote against proposed acquisition
- Public holders of securities who vote against a qualifying acquisition that is completed must be able to convert their securities for their pro-rata portion of the escrow funds
- Once the qualifying acquisition has been approved and the business/asset is acquired, the resulting entity will trade as a Toronto Stock Exchange listed company
- If the qualifying acquisition is not completed within the 36 months allowed, the SPAC must provide for a liquidation distribution feature allowing for the pro-rata distribution of funds in escrow to the public security holders