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A Client Communication

TSX Venture Exchange: Changes to the Capital Pool Company Program

On December 1, 2020, the TSX Venture Exchange ("**TSXV**") announced significant changes to its Capital Pool Company ("**CPC**") program, a unique program that provides an alternative method for private companies to list on the TSXV. The amendments come in the form of an amended and restated Policy 2.4 - Capital Pool Companies of the TSXV's Corporate Finance Manual (the "**New Policy**"). The New Policy seeks to increase the flexibility and economics of the CPC program while reducing its regulatory burden.

The New Policy will become effective on January 1, 2021, subject to the receipt of requisite regulatory approvals.

The following provides a general overview of the changes under the New Policy:

I. 24 Month Deadline

CPCs are no longer required to delist from the TSXV or transfer their listing to the NEX if the CPC's Qualifying Transaction ("**QT**") is not completed within 24 months of listing.

The New Policy also eliminates the requirement to cancel any seed shares if the QT is not completed within 24 months of listing.

Previously, all seed shares purchased by non-arm's length parties to the CPC were required to be cancelled if the CPC was delisted for failing to comply with the 24 month deadline. If the listing was instead transferred to the NEX, subject to shareholder approval, a certain number of seed shares purchased by non-arm's length parties to the CPC could be cancelled so that the average cost of the remaining seed shares was at least equal to the IPO price.

II. Seed Capital and Aggregate Funds

Under the New Policy, the maximum amount of seed capital that can be raised at a price that is below the offering price for the CPC's initial public offering has been increased from $500,000 to $1 million. The New Policy has also raised the aggregate cap on the amount of capital that can be raised by a CPC from $5 million to $10 million.

III. Escrow

A CPC's board and management, together with any CPC shareholder who acquired shares below the IPO price, are normally subject to significant escrow restrictions following a QT. These restrictions vary between 18 and 36 months depending on whether the resulting issuer is a Tier 1 or Tier 2 issuer.

Under the New Policy, this classification structure is removed by replacing the tiered escrow period with one 18 month escrow period for all escrowed securities, with 25 percent released on the completion date of the QT and 25 percent released on the 6, 12 and 18 month anniversaries of such completion date.

CPC stock options and its underlying shares will be released from escrow concurrently with the issuance of the final bulletin by the TSXV, unless such securities were granted before the IPO with an exercise price less than the IPO price.

IV. Directors and Officers

CPC directors and officers have historically been required to be residents of Canada or the United States or to have public company experience.

Under the New Policy, only a majority of directors must be residents of Canada or the United States or have public company experience. Additionally, one person may now simultaneously act as CEO, CFO and Secretary.

V. Public Distribution

Under the New Policy, a CPC will only be required to have 150 public shareholders holding at least 1,000 shares instead of the current requirement of 200 public shareholders. The minimum size of the public float following the IPO of the CPC has also been reduced from 1 million shares to 500,000 shares. However, public shareholders must still collectively hold at least 20% of the outstanding shares of the CPC upon completion of the IPO.

VI. Finder's Fees

A CPC has been historically prohibited from paying finder's fees to non-arm's length parties. Under the New Policy, a CPC is now permitted to pay a finder's fee to a non-arm's length party, as defined in the New Policy, provided that:

- the QT is not a non-arm's length QT;
- the QT is not a transaction between the CPC and an existing public company;
- the finder's fee is payable in cash, listed shares and/or warrants; and
- disinterested shareholder approval is obtained for the finder's fee.

VII. Use of Proceeds

Under the New Policy, a CPC is now permitted to incur general and administrative expenses of $3,000 per month instead of the previous maximums.

VIII. Stock Options

Under the New Policy, a CPC is now permitted to adopt a 10% rolling stock option plan whereby the number of shares under the plan is based upon the number of shares outstanding at the time of the option grant. Previously, a CPC was only permitted to have a fixed stock option plan whereby the total number of shares reserved for issuance was limited to 10% of the issued and outstanding shares as at the closing of the IPO.

Furthermore, the minimum exercise price for CPC stock options granted before the IPO will now be the lowest seed share issue price. After the IPO, the minimum exercise price will be the discounted market price of the shares as determined by Policy 4.4 – Incentive Stock Options of the TSXV's Corporate Finance Manual.

IX. Agents and Pro Group

Under the New Policy, the CPC's IPO agent will no longer be required to be a member, as defined in the New Policy, of the TSXV. Furthermore, the maximum term of options granted to an agent has been increased from two years to five years.

Unless required by applicable law, the four-month hold period will also no longer apply to shares issued to the pro group, as defined in the New Policy, as part of the QT.

X. Transition Provisions

The New Policy contains a number of transition provisions which are applicable to: (i) an issuer that has filed its CPC prospectus, but not yet completed an IPO as at December 31, 2020; (ii) existing CPCs as at January 1, 2021; and (iii) resulting issuers, as defined in the New Policy, as at January 1, 2021.

Prospective CPCs

Issuers that have filed a CPC prospectus but have not yet completed an IPO at the time the New Policy comes into force may elect to either comply with the New Policy or file its final prospectus and complete the IPO in accordance with, and be governed by, the former policy.

Existing CPCs

Existing CPCs can implement certain changes without shareholder approval, such as increasing the maximum aggregate gross proceeds raised by the CPC from $5 million to $10 million, incurring expenses pursuant to the new use of proceeds rules or issuing new agent's options in connection with a private placement.

However, certain other changes will require disinterested shareholder approval, such as:

- removing the potential consequences of failing to complete a QT within 24 months of listing;
- extending the term of outstanding agent's options from two years to five years;
- amending escrow terms;
- paying a finder's fee to a non-arm's length party; and
- adopting a 10% rolling stock option plan.

Resulting Issuers

Resulting Issuers will be able to amend existing CPC escrow agreements to reflect the new escrow terms permitted under the New Policy provided that, among other things, disinterested shareholder approval is obtained.