

Guide to Going Public in Canada for Chinese Companies





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Gowlings is recognized for its expertise in M&A, mining, tax, corporate finance and for its China Group. Over 20 Gowlings professionals are fluent in Cantonese and Mandarin.

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CONTRIBUTORS

Jenny Chu Steinberg
t 1-416-862-3543
jenny.chusteinberg@gowlings.com

Brett Kagetsu
t 1-604-443-7601
brett.kagetsu@gowlings.com

Eugene Chen
t 1-403-298-1008
eugene.chen@gowlings.com

David McIntyre
t 1-416-862-5791
david.mcintyre@gowlings.com

Michael Boehm
t 1-613-783-8843
michael.boehm@gowlings.com

Paul Fornazzari
t 1-416-369-7115
paul.fornazzari@gowlings.com

Jason Saltzman
t 1-416-862-4479
jason.saltzman@gowlings.com

Stuart Breen
t 1-604-891-2255
stuart.breen@gowlings.com

Ash Gupta (tax)
t 1-416-369-7366
ash.gupta@gowlings.com

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The following is a guide for Chinese companies that wish to go public in Canada and obtain a listing on the Toronto Stock Exchange (TSX) or TSX Venture Exchange (TSX-V).

Why consider going public in Canada and listing on TSX or TSX-V?

With a total of over 3,600 issuers listed, the TSX and TSX-V are home to the largest number of issuers in North America.

Global Equity Market Comparison – June 30, 2010

	TSX/TSXV	Hong Kong Exchanges	Singapore Exchange	Shanghai SE	Shenzhen SE	LSE/ AIM	NYSE/AMEX Euronext	Nasdaq
Number of Issuers Listed	3,665	1,344	775	879	1,012	2,727	2,321	2,831
Quoted Market Value (US\$ Billions)	\$1,687.2	\$2,200.0	\$508.0	\$2,050.7	\$826.9	\$2,407.4	\$11,793.7	\$3,165.2
New Listings	249	30	12	10	N/A	71	64	112
Value Traded (US\$ Billions)	\$657.2	\$698.0	\$133.1	\$1,886.9	\$1,425.3	\$961.6	\$9,496.0	\$7,118.4
Broad Stock Market Indexes (% Change YTD Jun 2009)	8.9%	9.4%	21.5%	-19.0%	-1.8%	17.1%	9.6%	14.9%

Sources: Exchange Websites, World Federation of Exchanges, (TMX analysis of public information)

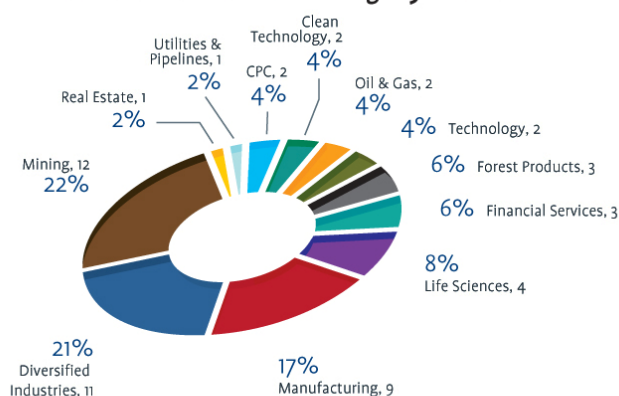
The industry sectors represented on the TSX and TSX-V are diverse. Canada is home to unparalleled mining and metals knowledge and expertise, attracting 55 per cent of all public mining companies from around the world to raise capital in Canada and to list on the TSX and TSX-V. The world's largest annual mining conference is hosted by the Prospectors and Developers Association of Canada, which takes place in March of each year in Toronto.

In addition to Canada's pre-eminence in mining and metals, 35 per cent of the world's public oil and gas companies are listed on the TSX and TSX-V. Other sectors on the TSX and TSX-V include diversified industries, technology, life sciences, clean technology, financial services, real estate, communications and media, utilities and pipelines, and forest products.

As of June 30, 2010, there were 53 China-based companies with a total market capitalization of C\$8 billion.

China-based companies listed on the TSX and TSX-V are engaged in a diverse range of industry sectors, the largest number being in mining, diversified industries and manufacturing.

TSX and TSXV Chinese Listings by Sector



Total Chinese Listings as at June 30, 2010 = 53
 Toronto Stock Exchange – 19 listings, Quoted Market Value = \$7.6B
 TSX Venture Exchange – 34 listings, Quoted Market Value = \$615M

TSX and TSXV Chinese Listed Companies

	2006(C\$)	2007(C\$)	2008(C\$)	2009(C\$)	June 2010(C\$)
Total Market Cap.	\$3.2B	\$8.7B	\$3.6B	\$8.6B	\$8.2B
Listed Companies	35	39	48	53	53
Median Market Cap.	\$23.2M	\$34.1M	\$11.8M	\$26.2M	\$22.8M
Average Market Cap.	\$91.4M	\$22.9M	\$75.3M	\$162.2M	\$157.8M
Financings	\$201.7M	\$925.4M	\$204.6M	\$950.6M*	\$51.4M
Average Financing	\$4.7M	\$20.1M	\$7.9M	\$45.3M	\$4.7M
Going Public Activity	9	7	11	9	3

*Sino-Forest Corporation closed a \$379.5M secondary offering

Source: TSX/TSX-V, *Capital Growth Opportunities for Chinese Companies*.

By going public in Canada, companies with a track record of success and good growth prospects can achieve healthy valuations and raise funds from a deep and knowledgeable pool of institutional and retail investors. Canada is a stable country with a liquid and well-regulated secondary market and direct access to the United States capital markets.

FREQUENTLY ASKED QUESTIONS (FAQs)

Following are answers to a handful of "frequently asked questions" we receive from our Chinese and other international clients as they contemplate an initial public offering in Canada.

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STOCK EXCHANGE LISTING

What are the requirements to list on the TSX and TSX-V?

Attached in Appendix A are charts setting out key listing requirements. The TSX-V, designed for more junior issuers, classifies issuers into two tiers based on historical financial performance, stage of business development and financial resources. Tier 1 is reserved for more advanced issuers with greater financial resources and entitles these issuers to less onerous filing requirements than Tier 2 issuers. Tier 2 represents earlier stage companies. The majority of the TSX-V's listed issuers are Tier 2 issuers. Tier 2 issuers can apply to graduate to Tier 1 status once the minimum listing requirements for Tier 1 have been met. Many TSX-V issuers also graduate to the TSX and many TSX and TSX-V issuers are inter-listed on U.S. or European stock exchanges.

IPO OVERVIEW

Can you provide an overview of what is to be expected?

An issuer wishing to go public by way of an initial public offering (IPO) does so by preparing and filing with Canadian securities regulators and the TSX or TSX-V a preliminary prospectus. After the comments of Canadian securities regulators and the TSX or TSX-V have been addressed, the issuer files a final prospectus and obtains a decision document that allows shares to be qualified for sale to the public. The prospectus performs two functions. Firstly, it is used by the issuer and the underwriters as a marketing document for the offering. Secondly, it is intended to provide potential investors with “full, true and plain disclosure of all material facts” relating to the securities offered.

How long is the process and can you tell me about the different steps?

Bringing an IPO to market typically takes between three and six months depending on how organized the issuer is, the size of the offering and the experience of the significant players in the IPO process. The process can be broken down into five phases:

1. *The Initial Preparation Phase* – Initial planning should commence as early as six months in advance of the targeted date for filing the preliminary prospectus and will include:

- ◆ Creation or updating of a business plan;

- ◆ The selection of lawyers, auditors and underwriters;

- ◆ Review of and, if necessary, strengthening of internal systems and procedures;

- ◆ Review of accounting policies and financial records and preparation of financial statements to be included in the preliminary prospectus and final prospectus (see more detailed discussion under “Financial Statements”);

- ◆ Preparation of a technical report if the issuer is a mining or oil and gas company (see more detailed discussion under “Technical Reports”);

- ◆ Tax planning and corporate restructuring (see more detailed discussion under “Corporate Structure”);

- ◆ Review of the makeup of the board and management team to ensure that the governance structure of the issuer meets with all applicable corporate and securities law requirements as well as TSX or TSX-V requirements;

- ◆ Review of and, if necessary, documentation of employment contracts as well as stock option and other incentive plans;

- ◆ Review of material contracts and compilation of materials for due diligence purposes; and

- ◆ Identification of the appropriate stock exchange for listing (see more detailed discussion under “Stock Exchange Listing”).

A pre-filing consultation with the TSX or TSX-V is encouraged.

2. *The Preliminary Prospectus Phase* – The issuer and its counsel should commence preparation of the preliminary prospectus several months in advance of the targeted date for filing. Once underwriters are selected, due diligence should begin, with the input of the issuer and underwriters and their counsel. Over this period, a number of drafts will be circulated to all members of the working group for comments and revisions. Once the preliminary prospectus is filed with Canadian securities regulators, and a decision document has been issued, the issuer and underwriters can commence marketing the IPO. The period between the filing of the preliminary prospectus and the final prospectus is known as the “waiting period.”

3. *The Waiting Period Phase* – Following the filing of the preliminary prospectus, it is reviewed by

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Canadian securities regulators and their comments are issued. The duration of this review varies with each issuer. It can be as short as four weeks if the issuer has complied fully with all disclosure requirements including those relating to financial statements. Comments issued by Canadian securities regulators are addressed and a draft of the final prospectus is prepared, which is essentially the preliminary prospectus modified to reflect the regulators' comments. Contemporaneous with receiving and responding to comments from Canadian securities regulators, a similar process takes place with the TSX or TSX-V who will review the listing application and supporting documents to ensure they meet all applicable requirements (see more detailed discussion under "Stock Exchange Listing"). Also during this phase, the underwriters and key members of the issuer's management team make a series of presentations to institutional investors and investment dealers over a period of five to 10 days (often referred to as the "road show"). The underwriting agreement is also negotiated and finalized.

4. *The Final Prospectus Phase* – Once all outstanding comments have been resolved with the Canadian securities regulators and the TSX or TSX-V, clearance is obtained to file final material with the regulators. The issuer will want to ensure by this point that the TSX or TSX-V has issued its conditional letter of approval for the listing of the issuer's shares, subject to conditions itemized in the letter. With respect to timing, it is best to reach this point when the market is most receptive to the offering, as this is the point when the issuer and the underwriters finalize price and size of the offering, enter into the underwriting agreement and file the final prospectus.

5. *The Closing Phase* – Closing occurs approximately five business days following the date on which the final prospectus is filed and a decision document for the final prospectus is issued by the Canadian securities regulators. At the closing, the securities offered under the prospectus are issued, the proceeds from the issue are delivered to the issuer and the issuer's shares begin to trade on the TSX or TSX-V, as the case may be.

What is the standard of disclosure for the prospectus?

Every prospectus must contain a certificate signed by the chief executive officer, chief financial officer and, on behalf of the board, two directors, and any person or company who is a promoter of the issuer, which states:

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities

offered by this prospectus as required by the securities laws of [insert the jurisdictions in which qualified].

The prospectus must contain a similar certificate signed by the underwriters, except that their statement is qualified by the phrase "to the best of our knowledge, information and belief."

A high onus is placed on companies accessing the Canadian capital markets to ensure that the prospectus contains adequate disclosure. Should the prospectus contain a misrepresentation, the issuer, its directors, its officers, the underwriters and experts could face civil liability and possible penalties. In preparing the prospectus, the issuer should work closely with its professional advisers, including lawyers and accountants as well as the underwriters, to ensure that proper disclosure is made in the prospectus.

What can be expected in terms of due diligence that will be conducted by underwriters?

In general, the issuer and parties preparing the prospectus are held personally liable for misrepresentations in the prospectus, subject to a "due diligence" defence. The due diligence process is, therefore, taken seriously by all parties and generally involves a thorough review of corporate records, financial information and material agreements as well as an inspection of operating facilities and management backgrounds. In essence, every fact in the prospectus must be verified and detailed records of the due diligence process must be maintained.

CORPORATE STRUCTURE

How are Chinese businesses typically structured prior to completing a Canadian IPO?

Typically, Chinese companies do not list directly on a Canadian exchange. We understand there are regulatory obstacles in China that make it difficult for China-based companies to list or enter into share exchange transactions with foreign companies as part of an offshore listing transaction. However, a variety of structures have been developed to take a Chinese business public in Canada with a view to complying with Chinese law. As such, it is very important to consult both Canadian and Chinese counsel at the outset to ensure that any proposed listing structure complies with the Canadian rules and all relevant Chinese laws, including the rules commonly referred to as Decree No. 10.

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In the past, two structures have been commonly used. In the first, a Canadian company is formed to invest in the Chinese business through a "wholly foreign-owned enterprise" (or WFOE) under Chinese law. We understand that in a WFOE, a mainland Chinese investor is not required, thereby facilitating foreign ownership of the underlying business. In this structure, the WFOE owns the business, and the WFOE is, in turn, owned indirectly by the Canadian public corporation through one or more intermediate holding entities. The actual structure would usually be designed to take advantage of both the tax treaty network in place between China and its tax treaty partners as well as the tax treaty network in place between Canada and its tax treaty partners.

Properly structured, the objective is to allow after-tax profits from the WFOE's business operations to be repatriated on a tax-efficient basis through the intermediate holding entities for the benefit of the Canadian parent company. Intermediate entities are often established for this purpose under the laws of the British Virgin Islands, Hong Kong, Malaysia or Netherlands, among others. The specific choice of jurisdiction is driven by a number of factors including, but not limited to, the nature of the underlying Chinese business operations. To the extent third-party debt financing is required, modifications or adjustments to the basic structure are often incorporated into the investment architecture.

A second structure used in these circumstances also involves a WFOE that is owned by the Canadian public corporation. In this structure, however, the WFOE does not own the operating business, but instead enters into suitable contracts with a Chinese company that owns the business and with the shareholders of the Chinese company. Under such contracts, the WFOE receives an income stream from the Chinese company and also governs and administers the operating business. Properly implemented, the objective again is to allow profits from the Chinese business to be repatriated on a tax-efficient basis for the benefit of the Canadian parent company.

The laws governing these arrangements are complex and alternative structures may be possible in particular circumstances. Therefore, in developing a structure for the ownership and listing of a Chinese business, it is very important to consult qualified counsel in Canada, China and other relevant jurisdictions to ensure that the structure complies with all applicable laws and regulations. The laws and government policies change from time to time, so even structures that have been used in the past need to be considered carefully and adapted to the individual requirements of the parties.

It should also be noted that Canadian securities regulators have policies under which the price and percentage of founders' shares in the issuer are reviewed in relation to those of the IPO investors to ensure that they are not "unconscionable," based on certain tests.

FINANCIAL STATEMENTS

What financial statements must be included in the prospectus?

In general, the preliminary prospectus and the final prospectus must include a statement of income, retained earnings and cash flow for each of the three most recently completed financial years, and a balance sheet as of the end of the two most recently completed years accompanied by an auditor's report.

The required annual financial statements are for years that ended more than 90 days before the date of the prospectus (120 days before the date of the prospectus for companies intending to list on the TSX-V).

There are exceptions to the rule if neither the issuer nor a predecessor entity has completed three financial years. Also, an issuer may be allowed to omit the statement of income, retained earnings and cash flow for the third most recently completed financial year as well as the balance sheet for the second most recently completed financial year, if the prospectus includes audited financial statements for a financial year ended less than 90 days before the date of the prospectus. They may also be omitted in a situation where the business of the issuer is not seasonal, and the issuer includes audited financial statements for a period of at least nine months commencing the day after the most recently completed financial year.

For any quarterly period that has ended subsequent to the most recent financial year, the preliminary prospectus and final prospectus must also include quarterly financial statements with comparatives for the corresponding interim period in the immediately preceding financial year.

Quarterly financial statements are required for periods ending more than 45 days before the date of the prospectus (60 days before the date of the prospectus for companies intending to list on the TSX-V).

Which of the financial statements included in a prospectus must be audited?

Annual financial statements included in a prospectus must be audited. Exceptions to this are the second and third most recently completed financial years, if

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the issuer is a "junior issuer." An issuer is deemed a "junior issuer" if its total consolidated assets in the latest balance sheet included in the preliminary prospectus are less than C\$10 million, if consolidated revenue in its most recent annual income statement included in the preliminary prospectus is less than C\$10 million and if its shareholders' equity as at the date of the most recent balance sheet of the issuer included in the preliminary prospectus is less than C\$10 million.

What accounting principles and auditing standards are acceptable for the financial statements to be included in the prospectus?

Standards and interpretations adopted by the International Accounting Standards Board (IFRS) are the basis of financial reporting for all public companies in Canada as of January 1, 2011. Accordingly, financial statements included in prospectuses and prepared for continuous disclosure following completion of an IPO should be prepared in accordance with IFRS. There are exceptions for (i) an SEC issuer; and (ii) a "designated foreign issuer" if, among other things, the issuer is subject to the disclosure requirements in specified countries including Hong Kong and Singapore. However, one of the conditions of being a "designated foreign issuer" is that the total number of equity securities beneficially owned by residents of Canada does not exceed 10 per cent, on a fully diluted basis, of the total number of equity securities of the issuer. Accordingly, while an issuer may be able to rely on an exception from the requirement to use IFRS for purposes of the IPO prospectus, it will be difficult to rely on the "designated foreign issuer" exemption for purposes of continuous disclosure following completion of an IPO if the primary market for the issuer's securities will be in Canada.

Our financial statements for prior financial years have been prepared using accounting principles other than IFRS. Can we include in the prospectus financial statements that utilize two different sets of accounting principles?

Yes you can, by presenting two sets of financial statements. For example, one set of financial statements can present the information for the most recent two years utilizing IFRS, and a second set can present the information either (a) for a third and fourth

year, or (b) a second and third year, using accounting principles for a "designated foreign issuer."

In (a), the issuer is including a fourth year not otherwise required to be included, while in (b), information for the second year is being presented in both sets of financial statements utilizing two different sets of accounting principles.

What auditors are acceptable?

An auditor's report filed by an issuer must be prepared and signed by an auditor that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and meets the professional standards of that jurisdiction.

Are there special rules that apply if we have made an acquisition prior to the IPO and we only have the historical financial statements prepared by the acquired company?

If the issuer has completed a "significant acquisition" since the beginning of the issuer's most recently completed financial year or proposes to complete a "significant acquisition," the general rule is that the prospectus must include a statement of income, retained earnings and cash flow for the most recently completed financial year and for the financial year immediately preceding that (if applicable), and a balance sheet at the end of each of those periods of the target business, which statements must be audited. Quarterly unaudited statements are also required for periods that ended before the date of the acquisition. The prospectus must also include a pro forma balance sheet and pro forma income statement.

TECHNICAL REPORTS

We are a mining company. Is there a requirement for a technical report on the properties?

Yes, in the case of a mineral property that is material to the issuer, scientific or technical information contained in a preliminary or final prospectus must be supported by the filing of a technical report with Canadian securities regulators. This technical report must be prepared by one or more "qualified persons" who are independent of the issuer. A "qualified person" is an engineer or geoscientist with at least five years of relevant experience and one who is in good standing with a specified professional association. The form of the technical report is prescribed by National Instrument 43-101 of Canadian securities regulators. Moreover, for exploration or development

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stage mining companies, one of the key requirements of the TSX or TSX-V is a technical report prepared in compliance with National Instrument 43-101 that contains a recommended work program. For mining companies that are producing, one of the key listing requirements is a technical report prepared in compliance with National Instrument 43-101 that contains three years of proven and probable reserves.

We are an oil and gas company. Is there a requirement for a technical report on the properties?

Yes, any information disclosed in a preliminary prospectus or final prospectus in respect of oil and gas reserves, resources or related information must be supported by the filing of a technical report with Canadian securities regulators. The report must be prepared by one or more "qualified reserves evaluators or auditors," in accordance with the form prescribed by National Instrument 51-101 and in accordance with the *Canadian Oil and Gas Evaluation Handbook*. A "qualified reserves evaluator or auditor" is a person independent of the issuer who possesses professional qualifications and experience appropriate for the estimation, evaluation, review and audit of reserves data, resources and related information, and who is in good standing with a specified professional association. Furthermore, the qualified evaluator or auditor must have evaluated or audited at least 75 per cent of the future net revenue attributable to proved plus probable reserves, and must also have reviewed the balance of future net revenue of the issuer in preparing the report.

CORPORATE GOVERNANCE

How should our board and management be constituted in order to ensure that we meet Canadian governance standards?

For an issuer intending to list on the TSX, the board will need at least three independent directors that are financially literate in order to have a properly constituted audit committee applicable to reporting issuers in Canada. As a general rule, executive officers and employees of the issuer, either currently or in the prior three years, are not independent. Directors of the issuer that have no other direct or indirect material relationship with the issuer and receive no compensation from the issuer other than remuneration for acting in his or her capacity as a member of the board is independent. The TSX and TSX-V require a minimum of two independent directors in order to meet minimum listing

requirements. Other Canadian corporate governance best practices should be considered by the issuer before reconstituting the board prior to an IPO.

In addition, a key listing requirement to list on the TSX or TSX-V is that management, including the board of directors, should have adequate experience and technical expertise relevant to the issuer's business and industry as well as public company experience. Given that continuous disclosure must be in English, the language skills of chief financial officers/controllers are also important.

For companies incorporated under the laws of Canada, are there Canadian residency requirements for directors?

Canadian residency requirements for directors vary. For example, each of the *Alberta Business Corporations Act*, *Ontario Business Corporations Act* and *Canada Business Corporations Act* requires that at least 25 per cent of its directors be resident Canadians. There are no Canadian residency requirements for directors under the *British Columbia Business Corporations Act*. The public vehicle for almost all Chinese businesses listed on the TSX and TSX-V are incorporated under one of the four statutes referred to in this paragraph.

Is there a requirement that we have an office in Canada?

There is no listing requirement for a foreign issuer to have an office in Canada. Foreign issuers are however, recommended to have a strategy to develop relationships with the investment community in Canada and a plan to satisfy all of their reporting and public company obligations in Canada. This may be achieved by having a member of the board of directors or management, an employee, or a consultant of the issuer situated in Canada.

Are shares held by principals escrowed or subject to any resale restrictions following completion of an IPO?

Both the TSX and TSX-V impose escrow requirements on the securities of the issuer held by the directors, officers, principal shareholders and promoters of the issuer, providing for a gradual release of securities over a period of 18 to 36 months. The purpose of the escrow requirements is to restrict those individuals that are key to the success of the issuer from selling their securities immediately

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following completion of the IPO. This ensures that the interests of such individuals are aligned with the interests of the public investors that have invested in the IPO. Escrow requirements differ depending on whether the issuer is an exempt or non-exempt issuer on the TSX or a Tier 1 or Tier 2 issuer on the TSX-V. An issuer listing on the TSX with a market capitalization of at least C\$100 million may be exempt from escrow requirements.

In addition to escrow requirements imposed by stock exchanges, underwriters typically request that certain key individuals agree to restrict resale of their securities for a defined period of time following completion of the IPO.

COSTS

What costs must be incurred to complete an IPO in Canada?

In addition to the time commitment of management, the following is a list of some of the expenses that can be anticipated in completing an IPO in Canada:

- ◆ Underwriters' fees
- ◆ Legal fees
- ◆ Fees of auditors
- ◆ Fees for preparing a technical report (for mining and oil and gas companies)
- ◆ Filing fees (paid to Canadian securities regulators)
- ◆ Listing fees (paid to the TSX or TSX-V)
- ◆ Printing costs
- ◆ Costs incurred in relation to marketing efforts
- ◆ Translation fees (if offering is made in the province of Québec)
- ◆ Transfer agency fees

ALTERNATIVE WAYS TO GO PUBLIC

Aside from an IPO, is there another way to take our company public?

Yes. There are two alternatives to consider. Firstly, a reverse take-over of an existing TSX or TSX-V listed issuer and secondly, a transaction known as a “qualifying transaction” with a capital pool company (CPC) listed on the TSX-V. The latter method is a popular way of going public for China-based companies.

In a reverse take-over, a publicly listed issuer (typically a shell company with few assets) acquires a private issuer (the company attempting to go public) and the private issuer becomes a subsidiary of the listed issuer. Shareholders of the private issuer become shareholders of the publicly listed issuer following completion of the reverse take-over. A reverse take-over can be structured in a number of ways, including a merger or share exchange. The reverse take-over is subject to the approval of the shareholders of the public company. Although the management information circular distributed to the shareholders of the public company is not reviewed by Canadian securities regulators, it must contain prospectus level disclosure of the public company, private issuer and the issuer resulting from the reverse take-over. Moreover, the issuer resulting from the reverse take-over must meet the original listing requirements of the TSX or TSX-V, and the transaction is subject to the review and approval of the TSX or TSX-V. The financial statements of the private company required to be included in the management information circular are similar to financial statements that would be required in a prospectus for an IPO. The time and costs of completing a reverse take-over are similar to the time and costs of completing an IPO. An additional factor in a reverse take-over is that the private issuer must conduct due diligence on the public shell to ensure that it is “clean,” i.e., that it has no undisclosed liabilities from a prior business. Moreover, there are existing shareholders in the public shell company (even if their equity interest in the public shell is significantly diluted by the equity issued to the shareholders of the private issuer).

A CPC is a shell company that has completed an IPO and raised a modest amount of money (the minimum required to be raised under the IPO by TSX-V rules is C\$200,000 and the maximum permitted by TSX-V rules is C\$4,750,000) and has obtained a listing on the TSX-V, with the sole purpose of completing a qualifying transaction — essentially a reverse take-over transaction. A qualifying transaction must be completed within two years of the CPC's IPO. An advantage of completing a qualifying transaction with a CPC over a regular reverse take-over transaction is that approval of the shareholders of the CPC is not required unless the parties are non-arm's length or the qualifying transaction is structured in a manner requiring shareholder approval under applicable corporate or securities laws. In most cases, the required disclosure document is a filing statement or, if shareholder approval is required, a management information circular. Either way, prospectus level disclosure is required. Due diligence of the public shell is typically more straightforward for a qualifying

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transaction with a CPC than a regular reverse take-over in that CPCs will not have carried on business prior to the completion of a qualifying transaction. The financial statements of the private company required to be included in the filing statement or management information circular for a qualifying transaction are similar to financial statements required for an issuer completing an IPO. Time and costs in completing a qualifying transaction may be less than for a reverse take-over if it is structured such that shareholder approval is not required.

We are about to negotiate the number of shares of the CPC to be issued to the shareholders of the private company. Are there rules that regulate the maximum number of shares that may be issued?

Once the parties reach an understanding as to the valuation of the private company, they are free to negotiate the number of shares of the CPC to be issued. However, minimum public float requirements of the TSX-V, such as the requirement that at least 20 per cent of the issued and outstanding shares must be in the hands of public shareholders, places a limit on the number of shares that may be issued to shareholders of the private issuer. Moreover, “value securities” which are subject to more favourable escrow arrangements, are determined by dividing the value of the private issuer (determined based on a

valuation method recognized by the TSX-V) by the last market price before announcement of the qualifying transaction (discounted per permitted discount rules). In addition, since at least 50 per cent of shares issued by the CPC in connection with a qualifying transaction must be “value securities,” the valuation of the private issuer should be considered early in the process.

Once we complete an IPO, reverse take-over or qualifying transaction, what is the nature of our ongoing reporting obligations?

Once an issuer completes an IPO, the issuer becomes subject to all requirements applicable to a “reporting issuer” under provincial securities legislation, including continuous disclosure obligations. Also, insiders of the issuer become subject to reporting and other obligations and restrictions. Moreover, in order to maintain a listing, the TSX or TSX-V must be notified of any proposed change in capital structure and other events, and its approval obtained.

OTHER CONSIDERATIONS

Does Canada have currency controls?

No. Canada has no currency controls.

Appendix A

LISTING REQUIREMENTS FOR EXPLORATION & MINING COMPANIES					
	TSX Venture Tier 1	TSX Venture Tier 2	TSX Non-exempt Exploration and Development Stage	TSX Non-exempt Producer	TSX Exempt
Property Requirements	Material interest in a Tier 1 property ⁴	Significant interest ⁵ in a qualifying property or, at discretion of the Exchange, a right to earn a significant interest ⁵ in a qualifying property; sufficient evidence of no less than \$100,000 of exploration expenditures on the qualifying property in the past three years	Advanced Exploration Property ² Minimum 50% ownership in the property ³	Three years proven and probable reserves as estimated by an independent qualified person (if not in production, a production decision made)	Three years proven and probable reserves as estimated by an independent qualified person
Recommended Work Program	\$500,000 on the Tier 1 property ⁴ as recommended by geological report	\$200,000 on the qualifying property as recommended by geological report ⁵	\$750,000 on advanced exploration property ² as recommended in independent technical report ⁶	Bringing the mine into commercial production	Commercial level mining operations
Working Capital and Financial Resources	Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing; \$200,000 in unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 months following listing; \$100,000 in unallocated funds	Minimum \$2.0 million working capital, but sufficient to complete recommended programs, plus 18 months G&A, anticipated property payments and capital expenditures. Appropriate capital structure	Adequate funds to bring the property into commercial production; plus adequate working capital for all budgeted capital expenditures and to carry on the business. Appropriate capital structure	Adequate working capital to carry on the business. Appropriate capital structure.
Net Tangible Assets, Earnings or Revenue	\$2,000,000 net tangible assets	No requirement	\$3,000,000 net tangible assets	\$4,000,000 net tangible assets; evidence indicating a reasonable likelihood of future profitability supported by a feasibility study or historical production and financial performance	\$7,500,000 net tangible assets; pre-tax profitability from ongoing operations in last fiscal year; pre-tax cash flow of \$700,000 in last fiscal year and average of \$500,000 for past two fiscal years
Other Criteria	Geological report ⁶ recommending completion of work program		Up-to-date, comprehensive technical report ⁶ prepared by independent qualified person and 18 month projection (by quarter) of sources and uses of funds, signed by CFO	Up-to-date, comprehensive technical report ⁶ prepared by independent qualified person	
Management and Board of Directors	Management, including board of directors, should have adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two independent directors.				
Distribution, Market Capitalization and Public Float	Public float of 1,000,000 shares; 250 public shareholders each holding a board lot and having no resale restrictions on their shares; 20% of issued and outstanding shares in the hands of public shareholders	Public float of 500,000 shares; 200 public shareholders each holding a board lot and having no resale restrictions on their shares; 20% of issued and outstanding shares in the hands of public shareholders	\$4,000,000 publicly held 1,000,000 free trading public shares; 300 public holders with board lots		
Sponsorship	Sponsor report may be required		Required (may be waived if sufficient previous 3 rd party due diligence)	Not required	

- (1) "G&A" means general and administrative expenses.
- (2) "advanced exploration property" refers to one on which a zone of mineralization has been demonstrated in three dimensions with reasonable continuity indicated. The mineralization identified has economically interesting grades.
- (3) A company must hold or have the right to earn and maintain a 50% interest in the property. Companies holding less than a 50% interest will be considered on a case-by-case basis looking at program size, stage of advancement of the property and strategic alliances.
- (4) "Tier 1 property" means a property that has substantial geological merit and is:
- a property in which the Issuer holds a material interest;;
 - a property on which previous exploration, including detailed surface geological, geophysical and/or geochemical surveying and at least an initial phase of drilling or other detailed sampling (such as trench or underground opening sampling), has been completed;
 - a property on which drilling or other detailed sampling on the property has identified potentially economic or economic materialization; and
 - an independent geological report recommends a minimum \$500,000 Phase 1 drilling (or other form of detailed sampling) program based on the merits of previous exploration results; or an independent, positive, feasibility study demonstrates that the property is capable of generating positive cash flow from ongoing operations.
- (5) "significant interest" means at least 50% interest
- (6) "geological report" or "technical report", in the case of a mining property, is a report prepared in accordance with National Instrument 43-101 – Standards of Disclosure for Mineral Projects or any successor instrument.

*Mining Disclosure Standards

National Instrument 43-101 is the Canadian Securities Administrators' ("CSA") policy that governs the scientific and technical disclosure for mineral projects made by mineral exploration and mining companies, including the preparation of technical reports. The instrument covers oral statements as well as written documents and websites. NI 43-101 requires that all technical disclosure be prepared by or under the supervision of a "qualified person." Issuers are required to make disclosure of reserves and resources using definitions approved by the Canadian Institute of Mining, Metallurgy and Petroleum.

NI 43-101 is available at:

http://www.osc.gov.on.ca/en/SecuritiesLaw_rule_20051223_43-101_mineral-projects.jsp

All amounts are expressed in Canadian dollars.

The foregoing is a summary of the applicable listing requirements only. For detailed listing requirements, refer to the TSX Venture Exchange Corporate Finance Manual and the Toronto Stock Exchange Manual, both of which are available at www.tmx.com

LISTING REQUIREMENTS FOR OIL & GAS (EXPLORATION OR PRODUCING) COMPANIES				
	TSX Venture Tier 1	TSX Venture Tier 2	TSX Non-Exempt Oil & Gas Exploration and Development Issuers	TSX Exempt Oil & Gas Issuers ⁴
Net Tangible Assets, Earnings or Revenue	No Requirement			Pre-tax profitability from ongoing operations in last fiscal year. Pre-tax cash flow from ongoing operations of \$700,000 in last fiscal year and average pre-tax cash flow from ongoing operations of \$500,000 for the past two fiscal years
Working Capital and Financial Resources	Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing; \$200,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 months following listing; \$100,000 unallocated funds	Adequate funds to execute the program and cover all other capital expenditures & G&A ¹ + debt service expenses for 18 months with a contingency allowance; 18 month projection of sources & uses of funds signed by CFO; appropriate capital structure	Adequate working capital to carry on the business. Appropriate capital structure.
Distribution, Market Capitalization and Public Float	Public float of 1,000,000 shares; 250 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public float of 500,000 shares; 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	At least 1,000,000 freely tradable shares with an aggregate market value of \$4,000,000; 300 public holders, each with one board lot or more	
Sponsorship	Sponsor report may be required			Not required
Property Requirements	Exploration - \$3,000,000 in reserves of which a minimum of \$1,000,000 must be proved developed reserves ² and the balance probable reserves Producing - \$2,000,000 in proved developed reserves ²	Exploration – either (i) Issuer has an unproven property with prospects or (ii) Issuer has joint venture interest and \$5,000,000 raised by Prospectus offering Reserves – either (i) \$500,000 in proved developed producing reserves or (ii) \$750,000 in proved plus probable reserves	\$3,000,000 proved developed reserves ^{2,5}	\$7,500,000 proved developed reserves ^{2,5}
Recommended Work Program	Exploration - satisfactory work program (i) of no less than \$500,000 and (ii) which can reasonably be expected to increase reserves, as recommended in a Geological Report Producing - No requirement	Exploration – minimum of \$1,500,000 allocated by Issuer to a work program as recommended in a Geological Report except where Issuer has a joint venture interest and has raised \$5,000,000 in Prospectus offering Reserves – (i) satisfactory work program and (ii) in an amount of no less than \$300,000 if proved developed producing reserves have a value of less than \$500,000 as recommended in Geological Report	Clearly defined program to increase reserves	
Management and Board of Directors	Management, including board of directors, should have adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two independent directors.			
Other Criteria	Geological Report recommending completion of work program		Up-to-date technical report prepared by an independent technical consultant (NI 51-101 ³) ⁵	

(1) "G&A" means general and administrative expenses.

(2) "Proved development reserves" are defined as those reserves that are expected to be recovered from existing wells and installed facilities, or, if facilities have not been installed, that would involve low expenditure, when compared to the cost of drilling a well, to put the reserves on production.

(3) "NI 51-101" National Instrument 51-101 – Standards of Disclosure for Oil & Gas Activities

(4) Exceptional circumstances may justify the granting of Exempt status notwithstanding the minimum requirements – generally an affiliation with an established business and/or exceptionally strong financial position is required.

(5) Reserve value of pre-tax NPV of cash flows using a 20% discount rate: constant pricing assumptions are used.

All amounts are expressed in Canadian dollars.
For detailed listing requirements, go to www.tmx.com.

**LISTING REQUIREMENTS FOR INDUSTRIAL, TECHNOLOGY,
RESEARCH & DEVELOPMENT AND REAL ESTATE COMPANIES**

Initial Listing Requirements	TSX Venture Tier 1 Industrial / Technology / Life Sciences	TSX Venture Tier 2 Industrial / Technology / Life Sciences	TSX Venture Tier 1 Real Estate or Investment	TSX Venture Tier 2 Real Estate or Investment
Net Tangible Assets, Revenue or Arm's Length Financing (as applicable)	\$5,000,000 net tangible assets or \$5,000,000 revenue If no revenue, two year management plan demonstrating reasonable likelihood of revenue within 24 months	\$750,000 net tangible assets or \$500,000 in revenue or \$2,000,000 Arm's Length Financing If no revenue, two year management plan demonstrating reasonable likelihood of revenue within 24 months	Real Estate: \$5,000,000 net tangible assets Investment: \$10,000,000 net tangible assets	\$2,000,000 net tangible assets or \$3,000,000 Arm's Length Financing
Adequate Working Capital and Capital Structure	Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing; \$200,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 months following listing; \$100,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing; \$200,000 unallocated funds	Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 months following listing; \$100,000 unallocated funds
Property	Issuer has Significant Interest in business or primary asset used to carry on business		Real Estate: Issuer has Significant Interest in real property Investment: no requirement	
Prior Expenditures and Work Program	History of operations or validation of business		Real Estate: no requirement Investment: disclosed investment policy	Real Estate: no requirement Investment: (i) disclosed investment policy and (ii) 50% of available funds must be allocated to at least 2 specific investments
Management and Board of Directors	Management, including board of directors, should have adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two independent directors.			
Distribution, Market Capitalization and Public Float	Public float of 1,000,000 shares; 250 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public float of 500,000 shares; 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public float of 1,000,000 shares; 250 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders	Public float of 500,000 shares; 200 Public Shareholders each holding a Board Lot and having no Resale Restrictions on their shares; 20% of issued and outstanding shares in the hands of Public Shareholders
Sponsorship	Sponsor Report may be required			

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For detailed listing requirements, go to www.tmx.com.

LISTING REQUIREMENTS FOR INDUSTRIAL, TECHNOLOGY, AND RESEARCH AND DEVELOPMENT COMPANIES					
Minimum Listing Requirements	TSX Non-Exempt Technology Issuers ^{1,7}	TSX Non-Exempt Research & Development (R&D) Issuers ⁷	TSX Non-Exempt Forecasting Profitability ⁷	TSX Non-Exempt Profitable Issuers ⁷	TSX Exempt Industrial Companies ⁸
Earnings or Revenue			Evidence of pre-tax earnings from on-going operations for the current or next fiscal year of at least \$200,000 ²	Pre-tax earnings from on-going operations of at least \$200,000 in the last fiscal year	Pre-tax earnings from on-going operations of at least \$300,000 in the last fiscal year
Cash Flow			Evidence of pre-tax cash flow from on-going operations for the current or next fiscal year of at least \$500,000 ²	Pre-tax cash flow of \$500,000 in the last fiscal year	Pre-tax cash flow of \$700,000 in the last fiscal year, and an average of \$500,000 for the past 2 fiscal years
Net Tangible Assets			\$7,500,000 ³	\$2,000,000 ^{3,4}	\$7,500,000 ³
Adequate Working Capital and Capital Structure	Funds to cover all planned development expenditures, capital expenditures, and G&A ⁵ expenses for 1 year ⁶	Funds to cover all planned R&D expenditures, capital expenditures and G&A ⁵ expenses for 2 years ⁶	Working capital to carry on the business, and an appropriate capital structure		
Cash in Treasury	Minimum \$10 million in the treasury, with majority raised by prospectus offering	Minimum \$12 million in the treasury, with majority raised by prospectus offering			
Products and Services	Evidence that products or services at an advanced stage of development or commercialization and that management has the expertise and resources to develop the business ⁹	Minimum 2 year operating history that includes R&D activities. Evidence of technical expertise and resources to advance its research and development programs ¹⁰			
Management and Board of Directors	Management, including the board of directors, should have adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two independent directors.				
Public Distribution and Market Capitalization	1,000,000 free trading public shares \$10,000,000 held by public shareholders 300 public shareholders each holding a board lot Minimum \$50 million market capitalization	1,000,000 free trading public shares \$4,000,000 held by public shareholders 300 public shareholders each holding a board lot			
Sponsorship	Generally required				Not required

The listing requirements above must be met at the time of listing. Any funds raised or transactions closing concurrent with listing contribute to the company meeting the listing requirements.

- (1) Generally includes companies engaged in hardware, software, telecommunications, data communications, information technology and new technologies that are not currently profitable or able to forecast profitability.
- (2) Applicants should file a complete set of forecast financial statements covering the current and/or next fiscal year (on a quarterly basis). Forecasts must be accompanied by an auditor's opinion that the forecast complies with the CICA Auditing Standards for future-oriented financial information. Applicants should have at least six months of operating history.
- (3) Under certain circumstances, deferred development charges or other intangible assets can be included in net tangible asset calculations.
- (4) Companies with less than \$2 million in net tangible assets may qualify for listing if the earnings and cash flow requirements for senior companies are met.
- (5) "G&A" means general and administration expenses.
- (6) A quarterly projection of sources and uses of funds, for the relevant period, including related assumptions signed by the CFO must be submitted. Projection should exclude uncommitted payments from third parties or other contingent cash receipts. R&D issuers should exclude cash flows from future revenues.
- (7) Exceptional circumstances may justify granting of a listing, notwithstanding minimum requirements – generally an affiliation with established business and/or exceptionally strong financial position is required.
- (8) Exceptional circumstances described in (7) may justify granting Exempt status. Special purpose issuers are generally considered on an exceptional basis.
- (9) "Advanced stage of development or commercialization," generally restricted to historical revenues from the issuer's main business or contracts for future sales. Other factors may also be considered.
- (10) Other relevant factors may also be considered.

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