

PUBLIC COMPANY SERVICES

GUIDE TO ENTERING THE CAPITAL MARKETS IN CANADA



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► IS GOING PUBLIC THE RIGHT DECISION?

YOUR BUSINESS IS A SUCCESS, FUTURE GROWTH LOOKS STRONG, AND YOU'RE CONSIDERING YOUR NEXT MOVE — TAKING YOUR COMPANY PUBLIC AND GAINING ACCESS TO THE CAPITAL MARKETS.

Every company founder has a dream. The years of personal investment, time, and energy poured into an enterprise are usually aimed toward a key goal. Over time, however, business and personal objectives can change. You may now be at the point where you need capital to expand your business. Or, after years of commitment and hard work, you would like to draw in some personal liquidity for yourself and your family. Or you may be considering an exit strategy. In these instances, taking your company public may be the right course to follow.

But before making that leap, you should seek out the advice of a trusted professional to help you weigh both the merits and the drawbacks of your decision. At BDO, our financial advisors can determine whether a public offering is feasible for your company, or even desirable under current circumstances. We can also help you explore other financing options outside of going public — such as bank loans, private placements of debt or equity, or venture capital.

Making the Decision

An initial public offering is an exciting time but it's not without its challenges. A clear and thorough understanding of what the entire process entails is required — from the preliminary stages, to life as a public company.

This guide is an introduction into going public and accessing capital in Canada by way of an IPO. Through it, we hope to provide you with the information required in deciding whether going public is the right choice for you and your company.

Weighing the Key Factors

The opportunities for public companies to maximize the equity holding of the founders and to use the equity base for subsequent public offerings and bank borrowings are impressive. However, there are also certain disadvantages associated with becoming a public company. This section describes some of the advantages and disadvantages typically encountered throughout the process.

What are the Advantages?

Stronger financial base

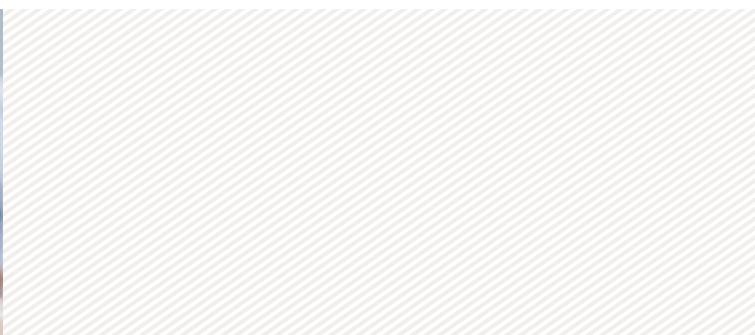
The greatest benefit of an initial public offering is the substantial capital it can bring into a company. With this new capital base, a company can achieve immediate and long-term goals such as the expansion of product lines, entering new business engagements or acquiring new entities.

Better financing prospects

Equity raised through an IPO can assist a company in obtaining debt financing and acquiring additional equity capital through subsequent offerings. Any further stock issues can be mollified by its existing market presence as well as the performance record of company shares.

Stronger position for acquisitions

Publicly traded stocks can be used in lieu of cash if and when a company decides to acquire another company. It is important to note that a stock deal, in some cases, may be more lucrative than a cash transaction once tax considerations have been accounted for.



Competitive executive compensation

A variety of stock options or purchase plans can attract and retain talented managers who typically find the marketability and potential appreciation of publicly traded shares appealing.

Prospect of liquid personal wealth

Going public can raise the value of a company. As a result, investments in publicly traded securities increase the liquidity of company shares, but remain subject to certain resale limitations imposed by the Provincial Securities Acts and Regulations.

Establish a market for existing shareholders

Going public provides existing shareholders an efficient way to trade shares in a regulated environment. Shareholders can, and normally do receive a better value-offering as opposed to a private sale. It also provides an exit strategy for early-stage investors.

Increased prestige for the company and management

The status associated with being a public company is widely recognized as an important credential by lenders, investors, suppliers, and customers.

What are the Challenges?

Requirement for public disclosure

Public companies are required to disclose timely, continuous reporting of pertinent information such as financial results of operations, executive compensation, share transactions of insiders and material corporate changes. This may also include strategic plans that might materially affect the price of the company's shares, such as proposed acquisitions and restructuring plans.

Pressure to maintain performance

As part of continuous disclosure requirements, companies in the capital market sector must issue quarterly earnings reports. Since share prices are generally based on a company's recent results and prospects, management may be under intense pressure to maintain steady growth in earnings. This occasionally leads to short-range decisions that conflict with sound long-range strategies.

Market volatility

It is important to bear in mind that a public company's value is vulnerable to external economic factors and overall stock market fluctuations — forces which it has no control over.

Accountability of Management

Public company management can often be constricted when making important decisions, as it must answer to its shareholders, board of directors and financial analysts.

Enhanced responsibility for the Board of Directors

Board members in public companies are accountable to public shareholders and key management. Thus, directors must protect shareholder interests as they are legally responsible for disclosing information in regards to company operations.

Costs

The cost of going public can be substantial. The total cost of an IPO varies widely — often running into several hundred thousand dollars. The costs don't stop once the company has achieved its public company status.

The type of fees incurred at the preparation and filing stages include:

- Underwriting fees — commissions and out-of-pocket expenses to the underwriters. These normally range from five per cent to seven per cent of the offering price but, could reach upwards of ten per cent for smaller or more speculative issues. In addition, some underwriters will negotiate for warrants to purchase a company's shares, usually exercisable at approximately the public offering price.
- Legal fees to ensure the proper structure is in place, drafting of the prospectus, due diligence calls and advising management on various matters that may arise during the process.
- Audit fees for the audit of the company's financial statements, especially if no audit has been performed in the past or if there have been significant acquisitions. It also includes costs for the auditor's involvement in the prospectus, including review of the document, preparation of consent and comfort letters, review of comment letters from the securities commission and attendance at due diligence calls.



- Printing fees to type the prospectus can be costly depending on the length of the document, formatting and various revisions which may be required.
- Translation fees are required for companies filing in Quebec which must have a French version of the document. This would also increase the printing fees as the French version would also have to be printed and formatted.
- Other substantial costs include directors' fees to ensure a strong independent board, director and officer liability insurance, listing fees, registrar fees, filing fees, travel costs as well as various other out of pocket expenses.

Ongoing costs after the company has gone public include:

- expenses for continuous disclosure as the company will have to file quarterly and annual reports as well as various other filing requirements with the securities commissions;
- expenses for corporate governance and investor relations;
- expenses for legal, audit and accounting fees;
- expense of proxy solicitation and annual report preparation;
- expenses for expanding the internal accounting system to generate the appropriate information;
- expenses for consultants may be required for valuations or assistance with internal control documentation; and
- competitive salaries to strengthen the management team.

Time

An IPO is time consuming and additional hours are also required solely to meet the ongoing demands of running a public company.

Loss of personal benefits

Benefits previously enjoyed by a private company may disappear once it goes public. For instance, to avoid any perception that insiders are being favoured at the company's expense, business with related companies may be reduced, and relatives may be removed from the payroll. Certain tax advantages private companies enjoy can also be lost in the move to going public.

Restrictions on share transfers

Public companies can face a variety of trade restrictions which restrict the sale of unregistered shares and prohibit trading on inside information.

Potential loss of control

Once public, an owner can lose control of his or her company if more than 50 per cent of their shares are sold to the public. It is important to note that secondary offerings or shares issued for acquisitions can further reduce ownership percentage.

Will My Public Offering Succeed?

Once the decision to go public has been agreed upon, the next key question to ask is: Will the offering succeed? The following factors can affect a company's chances for success:

Timing of offering

The climate for the IPO can fluctuate dramatically, both long and short term. Advisors will help to review such mitigating factors as the favourability of market conditions, the company's position in its industry, the company's infrastructure and its ability to meet the demands of the capital markets.

Size of offering

The size of the offering is determined by what the business is worth and what percentage is to be sold to the public. Consideration should be given to how much the marketplace can absorb, as well as the percentage of the business the owner wishes to sell.

Price of shares

The offering price is determined through negotiations with the underwriter and is based primarily on the following:

- A company's price/earnings ratio in comparison to others in the industry
- Evaluation of future prospects
- The strength of the management team
- The quality of earnings

Please note that underpinning all these factors are current market conditions.



▶ GETTING READY

TO PREPARE A COMPANY FOR LIFE AS A PUBLIC COMPANY, A COMPREHENSIVE BUSINESS PLAN MUST BE IMPLEMENTED. A METICULOUS PLAN PROVIDES A ROAD MAP FOR THE ROUTE A COMPANY SHOULD TRAVEL IN ORDER TO ACHIEVE STRATEGIC GOALS AND OBJECTIVES.

A good business plan should describe:

- The industry sector
- The company
- Company goals
- Sales, marketing and operations plans
- Corporate structure including key management and board of directors

Risk assessment and financial information such as how much capital is needed, financial statements and forecasts

A clear understanding of the company and its market vision are critical in attracting potential investors. For a successful IPO and continued market strength, a company must have a positive image with the financial community and business media. A strategic public relations program should be developed and implemented in the early stages of this process, as name and brand recognition take time to develop.

The corporate structure must have:

- **A management team that will appeal to the investing public:**
 1. It is imperative that the management team conducts itself with professionalism. Individuals with related industry experience are essential. Subsequently, family members without the proper credentials are not suitable.
 2. The team should have depth. Key management areas must be adequately covered. One entrepreneur is not enough to run an entire business.
 3. Finally, management should be sensitive to shareholders' goals and expectations; they should be able to intuit how business decisions will be viewed by investors.
- **A sensible executive compensation program** designed to attract and retain executives, while avoiding any sign of over-compensation or favouritism.



THE INITIAL PUBLIC OFFERING PROSPECTUS

A company has successfully entered the capital markets when the Provincial Securities Regulator permits it to sell securities by means of a prospectus. The process is complex and often exasperating. The first organizational meeting between a company owner and the IPO team, to the day the company's securities can be sold to the public, can take anywhere from two to six months.

This section provides an overview of what is to be expected during the process.

GOING PUBLIC PROCESS

| Week | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|-------------|--|---|---|---|----------------------------------|--|---|---|---|----|------------------------|-------------------------------------|
| Stage | Draft Preliminary Prospectus | | | | Filing of Preliminary Prospectus | Provincial Securities Regulator Review | | | Final Prospectus | | Closing and settlement | Listing |
| Company | Preparation of financial statements, prospectus, marketing documents, meetings with legal counsel, meetings with auditors, meetings with underwriters, internal management meetings, road show presentations | | | | | | | | Update prospectus for all changes and include pricing information | | • Receive cheque | Congratulations — Company is public |
| Auditor | Auditor work on year-end financial statements, interim statements, significant acquisitions, review of prospectus and comfort/consent letters. | | | | | | | | | | | |
| Lawyer | Ongoing legal work, drafting and updating the prospectus, company organizational structure, drafting various agreements (acquisitions, employment, stock option plans, etc.) | | | | | | | | | | | |
| Underwriter | Due diligence by underwriters – review of the company, its operations, site visits, financial review and review of material agreements | | | | | | | | | | | |
| | | | | | | The Road Show — marketing and solicitation to potential investors. Evaluate investor interest and pricing for IPO. | | | | | | |



Financial advisors and legal advisors, who have experience with similar companies, can advise on the structure of compensation packages based on a broad knowledge of the tax, financial and business implications of various strategies.

- **A strong board of directors and audit committee** with a broad range of expertise — an invaluable asset for any company.
- **Clearly documented related-party dealings** with the arrangements and transactions the company has with its affiliates. This includes officers, directors and/or major shareholders and must be disclosed in the prospectus.

Financial information will require past audited financial statements — usually from the last three years — to be disclosed. Please note that preparing these just prior to going public can be time-consuming, costly, and sometimes impossible because information is missing or earlier statements were not audited. This can lead to costly delays or even termination of the entire offering. Bringing in a qualified independent auditor and enlisting the services of qualified legal advisors as soon as the process of going public has begun is the best course of action to undertake.

▶ ASSEMBLING THE TEAM

The IPO team is comprised of a group of qualified professionals — management, Board members, auditors, tax specialists, legal advisors, and the underwriter. In the lead-up to the offering, an owner will spend more time with this group of people than with his or her own family and friends. Therefore, it is critical all participants share a high level of trust and strong communication in order to accomplish the IPO's objectives.



The IPO's four major objectives are to:

- Complete the process without major delay
- Complete the time offering to ensure it reaches the market at the most opportune moment
- Obtain the best price
- Establish a strong market for the shares after the IPO

Selecting Your Financial and Legal Advisors

BDO's financial advisors are experienced in public offerings. With regards to legal matters, BDO can refer you to law firms which specialize in the technical and legal requirements of initial securities filings, as well as subsequent reporting. Legal advisors can evaluate whether a company's corporate agreements — such as by-laws — are appropriate for a company wishing to enter the capital market structure.

Choosing the Underwriter

An important element of a successful offering is an experienced underwriter. The underwriter will assist with preparing the offering, create a market for the company's shares, provide support in the "after-market" to ensure share prices remain strong and keep an owner informed of how the industry his or her company serves is perceived by the market.

The underwriter must know the company's respective industry and have handled IPOs for similar companies. The underwriter is the primary source of advice on marketing and pricing shares, and decides when to approach the market.

What the Underwriter Will Look For

The lead underwriter, who closely studies a company before agreeing to usher it into the capital market, will examine:

- the **health** of the company's industry, the quality of its products, and the strength of its market position and potential for growth;
- the company's **earnings record** and prospects for future growth;
- the **experience** and **leadership** of the current management team and board of directors;



- the company's **sources** of supply and distribution channels, as well as types and number of customers;
- the **stability** of the company's financial position, including its capital structure and asset utilization; and
- the company's **reputation** with customers, suppliers, and competitors.

In conducting a company assessment, the underwriter interviews top management, independent auditors and lawyers. Because the underwriter assumes substantial risk in taking a company public, expect a reasonable amount of skepticism on their part during this investigation.

From a marketing perspective, underwriters prefer that the IPO consists primarily of newly issued shares, with proceeds going to the company. Concerns on behalf of the underwriter will arise if existing shareholders intend to sell a significant portion of their shares in the offering; it may create a perception suggesting they lack faith in the company.

Provincial Securities Laws and the Role of the Provincial Securities Regulator

In Canada, the IPO process is controlled by provincial securities regulators who oversee the sale of securities to the public, securities markets, and financial reporting of public enterprises. In essence, Securities Acts are framed to prevent fraudulent or misleading representations in the sale of securities. However, their broader purpose is to protect public confidence and integrity in the capital markets so investment funds can flow to business enterprises from a wide range of sources.

Regulators can bar the sale of securities if fraud or misrepresentation is involved, but will not refuse to clear an IPO solely because it might be a poor investment. The underlying philosophy of securities regulation is "buyer beware". That said, the review process is designed to ensure the buyer has all the material information necessary to make an informed investment decision.

Please note, if the securities are to be sold across Canada or in more than one province, a prospectus must be filed in each applicable province. Subsequently, a filing in Quebec requires a French translation of the prospectus.

The "Kick off" Meeting

The first organizational meeting (The "kick off" meeting) brings together company officials, the chief executive officer and the chief financial officer, with the independent auditors, the legal advisors and the lead underwriter.

Time is of the essence. It is imperative that an IPO reaches the market under favourable conditions. Minor delays may result in the prospectus being altered to explain interim material changes in the company's operations. Significant delays can generate skepticism in the marketplace regarding the offering.

To ensure smooth progress, the initial meeting must agree on a detailed timetable with a targeted effective date, with tasks assigned to meet established deadlines. Close coordination among team members is vital in ensuring the prospectus can be quickly amended to reflect the Provincial Securities Regulator's comments, or changes in the company's circumstances.

Drafting the Prospectus

Throughout the process, the prospectus is continually modified and thoroughly analyzed to determine whether company information is presented factually within the strict confines of disclosure requirements. The prospectus must provide full, true and plain disclosure.

These meetings are usually led by legal advisors who prepare the non-financial sections of the prospectus. The CFO is responsible for providing detailed financial and analytical information about the company, while the CEO gives an overview of the company's business plan, initially prepared at the "getting ready" stage.

The independent auditors explain the nature of their audits, including any highly judgmental areas or complex accounting issues. Moreover, they evaluate the financial statement implications of matters described in the prospectus' non-financial parts. The underwriter and lawyers describe the underwriting arrangement and marketing efforts.



Contents of the Prospectus

Two prospectuses must be filed — a preliminary and a final.

The preliminary prospectus substantially complies with the Securities Act but can omit details such as costs, the price to the underwriter and/or the offering price.

Drafting a prospectus, which is both a selling document and a legal disclosure, requires a delicate balance. From a marketing standpoint, an owner naturally wants to promote the unique advantages his or her company possesses over the competition while endorsing the business's bright future. From a legal standpoint however, an owner must give a complete, unbiased picture of the major risks associated with investing in the company and disclose all important information; even if it is negative in nature. The prospectus gives investors a broad view of the company, its operations, and its finances.

Some of the key disclosures include:

General development of the company covering the last three years, including key events such as mergers and the background of predecessor companies.

Company information should be comprised of the following:

- Stated objectives
- Milestones
- Principal products or services
- Operations
- Market factors
- Competition
- Industry trends that may influence your company's future prospects
- Significant business segments such as separate product / service lines

This final requirement may be troublesome if the information is either considered confidential or difficult to assemble. If a company must disclose financial information about segments, its accounting systems should be capable of generating the required information. Please note that as a public company, segmented disclosures will be required.

Specific information should include:

- Availability of raw materials
- Patents, trademarks, and licenses
- Seasonal cycles
- Concentration of customer base
- Government contracts
- Factors influencing working capital requirements
- Backlog
- Employees
- Foreign operations
- Historic growth factors

How the proceeds of the offering will be used when shares are to be sold by the company in a "primary" offering, such as for the expansion of a product line or debt repayment.

Management's discussion and analysis of the company's financial condition and results of operations for the last two years and for the most recent interim period with comparatives. This summarizes the trends in important financial areas such as the company's liquidity, operating results, capital structure, commitments, and future sources of capital.

The identity of principal shareholders and management who own shares, the amount owned, and details of options to purchase securities of the company.

Details of directors and officers, including their compensation, as required. The depth and relevance of their experience will also need to be indicated.

Related-party transactions between the company and its officers, directors, or major shareholders and their immediate families.

Risk factors — both business and financial — such as volatile industry conditions, an unproven product line, a highly leveraged capital structure, dilution in book value per share to public shareholders, or a lack of operating history, must be disclosed.



Financial information including summarized financial data for the last three years. Generally, the requirements are:

- audited statements of financial position at the end of each of the last two financial years; and
- audited statements of income and comprehensive income, shareholders' equity and cash flows for each of the last three financial years.

If at the time of filing the preliminary prospectus the company must include interim financial statements under continuous disclosure requirements, those statements must be included in the prospectus as follows:

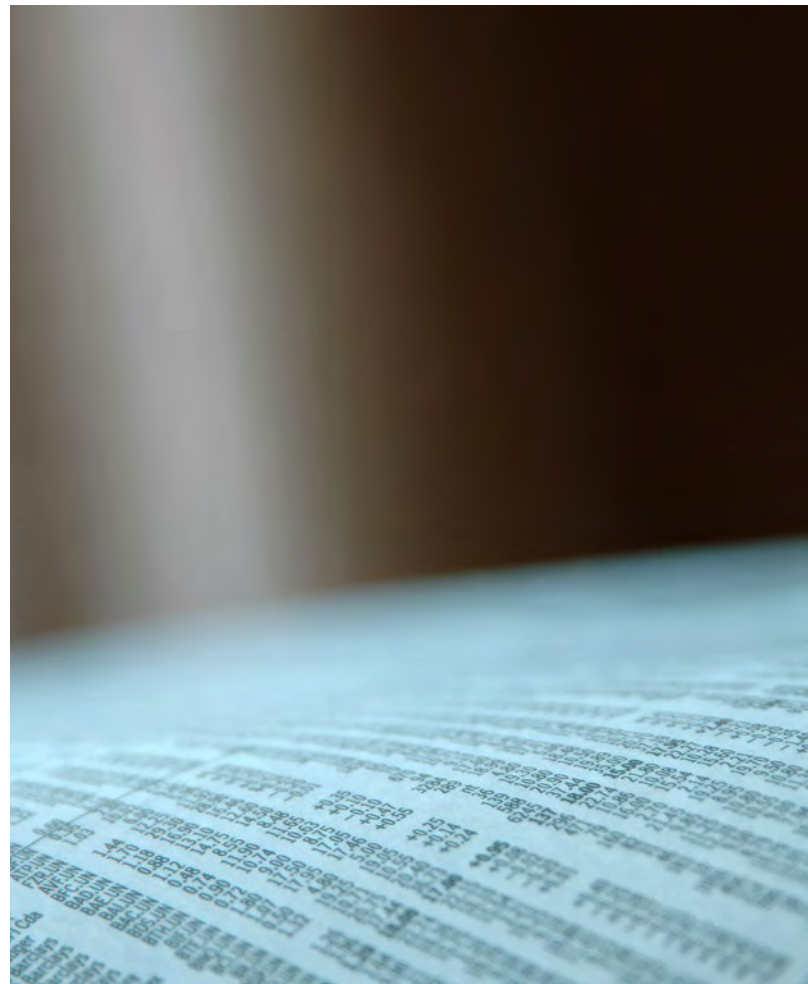
- interim statement of financial position at the end of the current interim period with comparatives; and
- interim statements of income and comprehensive income, shareholders equity and statement of cash flows for the year to date period with comparatives to the prior year and income and comprehensive income for the current interim period with comparatives.

While interim statements do not need to be audited, the auditor must carry out review procedures. If the company had made acquisitions in the last three years, there may be a requirement to include audited financial statements of the acquired company as well as pro forma financial statements of the combined company. These requirements vary based on how significant the acquisition was to the purchasing company.

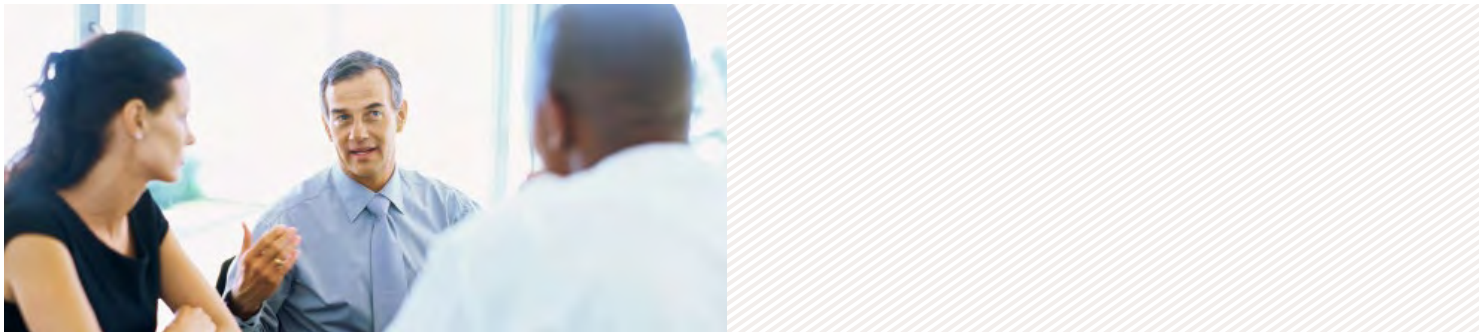
If there are significant acquisitions / dispositions, pro forma financial statements required to be included are as follows:

- pro forma balance sheet for the most recent balance sheet included in the prospectus;
- pro forma income statement for the most recent financial year included in the prospectus; and
- pro forma income statement for the most recently completed "year to date" interim period included in the prospectus.

As an independent auditor, BDO will help determine what financial statements must be included in the prospectus.



► Note that the financial statements must be in accordance with International Financial Reporting Standards ("IFRS"). This will require a conversion from private company GAAP financial statements to IFRS.



Escrow Arrangements

Regulatory authorities require that certain shares held by existing shareholders cannot be disposed of until certain conditions have been met. The number of shares required to be held in escrow is a function of the equity contributed to the issuer by the shareholder.

Due Diligence

The Underwriter will conduct a comprehensive review of the Company. This review includes discussions with management, review of the operations and financial results, performance of site visits and reviews of any material agreements. This process helps ensure that the filing is strong and marketed appropriately and that the prospectus includes full, true and plain disclosure.

Legal advisors for the company and the underwriter normally require officers and directors to complete written questionnaires confirming the information in the prospectus. Advisors interview these parties to ensure they fully understood the questionnaires. This process helps verify business-related disclosures, such as product descriptions, manufacturing, distribution and marketing activities.

Financial advisors satisfy their due diligence requirements by performing one or more subsequent events investigations after their audit, determining whether their report on the financial statements is still appropriate, or whether disclosures need to be changed. We also check the prospectus for any inconsistencies between the financial and non-financial portions.

The underwriter ordinarily requests the independent auditors to perform certain due diligence procedures on their behalf and to issue a comfort letter outlining the results of those procedures as of the date of the final prospectus. This may be updated when the net proceeds are remitted to the company at the closing date. The comfort letter discusses the results of the auditors' inquiries available after the last audit. It highlights any adverse developments such as declines in working capital, sales, net income, or other financial trends, and describes special procedures the underwriter requested them to perform, in regards to other data in the prospectus.

Listing the Securities

Exchange options in Canada include the Toronto Stock Exchange (TSX), Canada's largest securities trading market, The TSX Venture Exchange or the Canadian National Stock Exchange (CNSX). To distribute the issue in a number of provinces, a prospectus must be filed in each applicable jurisdiction. Usually, one province is selected as the primary exchange for filing. Please refer to the TSX website at www.tsx.com for a listing of the requirements of the TSX and the TSX Venture Exchange, or the CNSX website at www.cnsx.ca for their listing requirements.

The "Preliminary" Prospectus

Once the team is finally satisfied with the prospectus draft, it is printed and filed with the Provincial Securities Regulator. At this point, the lead underwriter begins to form an underwriting syndicate, whose members then receive the preliminary prospectus. This is then distributed to interested potential investors.

However, since the regulator has not yet declared the prospectus effective, and the securities cannot be offered for sale to the public, a warning appears on the preliminary prospectus.

The Waiting Period

The waiting period begins with the receipt of the preliminary prospectus by the regulator. It ends when the regulator issues a receipt for the final prospectus. During this time, the IPO's selling and public relations activities are strictly regulated. As prescribed by the Securities Act, it is permissible to distribute a very simple note, circular, or advertisement of the proposed offering. Generally, the preliminary prospectus is the principal means of disclosing information about the offering. Public statements about normal business operations — such as new product announcements — are permitted during the quiet period, but it is recommended to have such communications first reviewed by the legal team.



Provincial Securities Regulator Review

The prospectus is reviewed by the Provincial Securities Regulator's staff, which includes accountants, financial analysts, lawyers, and engineers. The review focuses on whether the prospectus contains the required disclosures and complies with the rules. It does not comment on the viability of the issue. The filing is analyzed, not only for the information it contains, but also in the context of current business developments, business practices and accounting policies prevalent in the company's industry and specific economic environment. The results of this review are usually received within 10 business days from the date of filing the preliminary prospectus. Legal advisors handle all filing details.

At the end of the review, the Provincial Securities Regulator sends the company a comment letter requesting either changes in, or explanations of the prospectus. Since extensive changes can seriously delay the offering, comments can be minimized if potential problems are anticipated and dealt with in advance of the filing. To that end, experienced legal and financial advisors can help ensure there are no extensive delays.

Legal and financial advisors can resolve some comments by sending a response letter with supplemental information to the staff, while more complex issues may require a conference call or face-to-face meeting with the regulator's staff. Most comments requiring revision do not ordinarily impede the registration timetable. However, extensive changes may result in the printing and circulation of a revised preliminary prospectus. The added costs can be expensive and the delays damaging to the IPO. Any decision to re-circulate is made by the legal advisors and lead underwriter.

The "Road Show"

Once the comment letter from the securities commission has been received by the company owner and he or she is comfortable and outstanding concerns have been addressed and rectified, the marketing phase of the IPO and the subsequent "road show" may commence. The road show is usually a tour over a number of cities and countries where the owner presents the company's state of affairs to potential investors. It is during this time that the underwriters get an idea of the expected pricing of the offering. Generally, a public relations firm is hired to assist in ensuring a successful presentation.

The "Final" Prospectus

Once the Regulator approves all revisions, the prospectus can be finalized. The issuer will settle with the underwriter on the size and other financial terms of the offering, and the underwriting agreement is entered into. Afterward, the prospectus and relevant supporting materials are filed with the Provincial Securities Regulator and a receipt is obtained.

The final prospectus is given to members of the underwriting syndicate for distribution to prospective investors who received a copy of the preliminary prospectus.

Closing and Settlement

Usually within one to two weeks of filing the final prospectus, all legal documents are signed and the net proceeds (after deducting underwriting fees) are received. The share certificates are issued and the company has officially 'gone public', thus entering the capital markets.





▶ LIFE AS A PUBLIC COMPANY

Once listed, public companies often face the following ongoing issues:

- Deadlines, deadlines and more deadlines
- Less time to meet deadlines
- Increased costs (hard costs and soft costs)
- Governance
- Disclosure levels

Life as a public company is driven by four new concerns:

- Corporate governance
- Share price
- Securities laws
- Public scrutiny

Corporate Governance

Once a company has entered the public enterprise structure, good corporate governance becomes a key focus. Management must ensure the company is in compliance with the requirements of regulators, listing exchanges and all relevant corporation acts. Generally this will require a strong board of directors and a strong audit committee.

Audit Committees

Every reporting issuer must have an audit committee with a minimum of three members who are independent and financially literate. Independence is defined in the securities rules as not having a direct or indirect relationship with the company. For example, it would mean no relationship that could, in the board's view, reasonably interfere with exercise of independent judgment. Financial literacy is defined as the ability to read and understand a set of financial statements with comparable breadth

and complexity of accounting issues. The role and responsibilities of audit committees are more demanding than ever in ensuring the integrity of financial reporting and corporate governance of the entity.

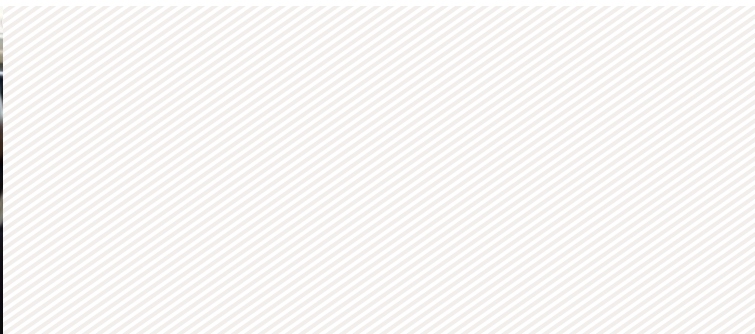
Their responsibilities include:

- A written charter setting out the audit committee mandate and responsibilities;
- recommending external auditors and their compensation to the board;
- overseeing the work of auditors;
- pre-approving all non-audit services;
- reviewing financial statements, management, discussion and analysis (MD&A) and earnings press releases prior to public release;
- reviewing procedures for other financial disclosures;
- establishing procedures regarding complaints and anonymous submissions of concern by employees; and
- reviewing the policies for hiring employees and partners of the external auditor.

For TSX Venture listed companies, some exemptions apply.

Certification of Internal Controls over Financial Reporting

Legislators in Canada are demanding increased management accountability through the establishment of an effective system of internal controls. This responsibility falls primarily on the shoulders of CEOs and CFOs who have to personally sign certifications on the annual and interim filings indicating that they do not contain any misrepresentations. They must personally attest that the financial statements and other financial information on both the annual and interim filings fairly present the financial condition, results of operations and cash flows of the company. In addition to all of this, CEOs and CFOs of TSX listed companies (excluding venture issuers) will also have to sign off on the design and operating effectiveness of the internal controls over financial reporting of the company.



Focusing on Share Price

Management of a public company must be sensitive to shareholder expectations of higher share prices. While a strong earnings trend helps, the best strategy is a well-planned investor relations' program which keeps the financial community aware of the company and its prospects for the future.

Public companies must make timely disclosures related to investment decisions. This goes beyond financial data and includes information such as new products, acquisitions, and key management changes — regardless of whether or not the information is favourable to the company's image.

With that said, the stock market detests surprises, especially negative ones. Thus, transparent disclosure of important information to a company's target audiences is key. The financial community can better assess disclosures if they understand the company's philosophy and ability to cope with change. For example, the impact of one poor quarterly earnings period can be absorbed if the public understands the business cycle and its company's future plans.

Continuous Disclosure Requirements

Once the transition from private to public has been made, all public companies must comply with the numerous legal and reporting provisions of the Securities Act to ensure all investors have equal access to the information they need to make a sound investment decision. The following are the more significant reporting requirements for:

Financial Statements

The Securities rules require every reporting issuer to prepare comparative financial statements, using International Financial Reporting Standards (IFRS), as follows:

- Interim financial statements, comprising of a statement of financial position, statements of income and comprehensive income, shareholders' equity and cash flows; and
- audited annual financial statements, consisting of statement of financial position, statements of income and comprehensive income, shareholders' equity and cash flows.

Filing deadlines for audited annual financial statements are:

- For reporting issuers other than venture issuers, on or before the earlier of 90 days from the financial year end or the date of filing in a foreign jurisdiction; and
- for venture issuers, on or before the earlier of 120 days from the financial year end or the date of filing in a foreign jurisdiction.

Filing deadlines for interim financial statements are:

- For reporting issuers other than venture issuers on or before the earlier of 45 days from the interim period end or the date of filing in a foreign jurisdiction; and
- for venture issuers, on or before the earlier of 60 days from the interim period end or the date of filing in a foreign jurisdiction.

Both interim and annual financial statements must be reviewed by the audit committee and approved by the board of directors before the statements are filed.

In addition, all public companies are required to send a copy of the business's financial statements and MD&A to those who request it. Please note that a request form must be distributed on an annual basis asking interested parties if they would like to receive copies of the aforementioned financial documents.





Annual Information Form (AIF)

The Annual Information Form (AIF) is required for reporting issuers listed on the TSX exchange. Venture issuers are exempt from having to file an AIF.

The more significant disclosures in the AIF are:

- The stage of development of principal products and services;
- a description of production and services, leases or mortgages, specialized skill/knowledge and economic dependence, including social and environmental policies;
- financial data from the financial statements in total and on a per share and diluted per share basis (three-year summary);
- capital structure;
- ratings from any rating agencies;
- trading volume and volume of securities;
- legal proceedings;
- interest of management and others in material transactions;
- material contracts not made in the ordinary course of business;
- experts responsible for opinions in the AIF and their interests in the issuer;
- description of any contract that the company is substantially dependent on; and
- executive compensation.

Management Discussion & Analysis (MD&A)

The Management Discussion & Analysis is a formal discussion by management regarding the issuer's current financial situation and future prospects. As specified by provincial regulation, the MD&A includes information about the issuer's liquidity, capital resources, critical accounting policies, changes in accounting policies, off-balance sheet transactions and risks and uncertainties.

Essentially, the MD&A describes the company through the eyes of management; it gives investors an opportunity to assess trends in the company's operations. The MD&A must be written in plain language, making it simple for readers to understand. An MD&A is required for both

interim and annual financial statements and must be reviewed by the audit committee and approved by the board of directors.

Disclosure of Material Changes

A material change is a change in the business, operations, or capital of the issuer that is likely to have a significant effect on the market price or value of any of the securities of the issuer. The act requires that material changes be disclosed through a press release to be issued immediately after a material change occurs. Subsequently, a material change report must be filed with the regulator within 10 days of the change occurring.

Business Acquisition Report

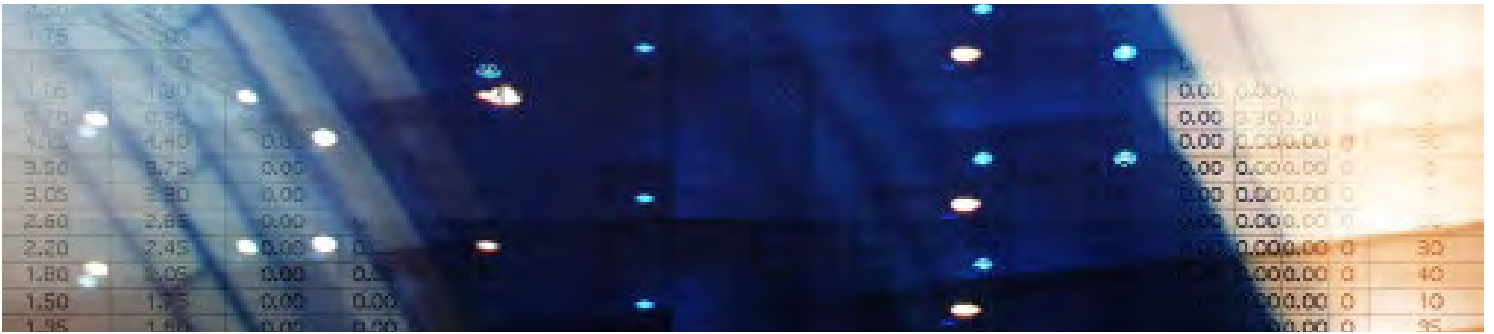
A business acquisition report must be filed within 75 days after completing a significant acquisition. However, it may be longer if the acquired business completed a financial year end within 45 days or less before the date of acquisition. In that case, you would have 90 days for a reporting issuer. There are specific and complex rules in determining whether an acquisition is considered significant. This report describes the significance of the business acquired, and its effects on the company. It includes items such as the nature of the business acquired, the parties to the transaction, the date of acquisition, the consideration and the effect on the company's financial position. For Venture Issuers, some exemptions and time limitations apply

The business acquisition report must also contain certain financial statements for the significant business(es) acquired. This includes details such as audited financial statements for the most recent fiscal year end with comparative interim financial statements with a comparative interim period in the preceding financial year and pro forma financial statements to show the effects of the acquisition on the reporting issuer.

The rules are complex and as independent auditors, we can help review whether the significant tests have been met, and which financial statements must be included in the report.

Proxies, Information Circulars and Other Information

The Securities Act requires any person or company soliciting proxies from holders of the reporting issuer's voting securities to supply an information circular to such security holders.



Insider Reporting

Insiders are in a position to access information not generally available to other investors. Accordingly, insiders must publicly disclose their holdings of a reporting issuer's securities and changes in their holdings. This must be done electronically.

BDO keeps informed on all provincial disclosure requirements, and can assist in setting up the necessary internal accounting system to routinely capture the relevant information.

Living in the Public Eye

Life after the IPO is like stepping from the wings and onto the stage. Suddenly you're performing before a large audience. This awareness pervades virtually every aspect of your work — from drawing up new employment contracts to planning mergers to considering research and development projects. Goals for the company must now be achieved with an eye toward how they will be viewed by your shareholders and the investment community at large. For most, this is a small price to pay for the many advantages of entering the capital market.



▶ IT'S YOUR MOVE

USHERING YOUR COMPANY INTO THE PUBLIC MARKET STRUCTURE WILL BE AMONG THE MOST DIFFICULT DECISIONS IN YOUR BUSINESS EXPERIENCE. IT REQUIRES AN EXHAUSTIVE ANALYSIS, WEIGHING THE OPPORTUNITIES AGAINST THE PITFALLS, AND FINALLY, DETERMINING IF YOUR COMPANY IS READY AND ABLE TO MEET THE EXPECTATIONS OF THE MARKET.

Because preparation is the key to a successful IPO, BDO has developed this guide to provide you with a clear overview of this process. When you're ready, we would be pleased to advise you during this most critical time for your company.

▶ APPENDIX

Alternatives to a Full Scale Initial Public Offering

This guide focuses on only one means of financing — an IPO involving publicly traded securities. Company owners should decide whether this course of action is best for his or her company only after carefully evaluating alternative means of financing. Some of these are not only ends in themselves, but also interim steps on the road to an IPO. The variety of financing techniques is limited only by the ingenuity of the financial community. Some possible alternatives are briefly described below. The financial advisors at BDO are capable of assisting company owners investigate the advantages and drawbacks of each, and assist in projecting the effects they could have on the company.

Capital Pool Company (CPC)

This program is offered exclusively by the TSX Venture Exchange. It brings an experienced management team together with a company looking for capital and management experience.

A CPC (a shell corporation) is created through an IPO on TSX Venture. The business is established to find and acquire a promising company or asset, and is funded expressly for the search and due diligence process.

Within 24 months of the IPO, the CPC completes a qualifying transaction by acquiring a suitable company or asset. At this point in time, a reverse take-over transaction generally occurs - see below. The acquired business obtains the funds and the public distribution of the CPC. This reduces the time and expense usually associated with going public, with the same end result of becoming a regularly listed company.

Reverse Take-Over

A reverse take-over is an alternative method of becoming a public company. This occurs when a private company obtains control of a public company, generally a 'shell company', which trades in the over-the-counter market or, may be listed on one of the stock exchanges.

Control can be obtained in a number of forms, including the issuance of shares of the public company for assets of the private company, the issuance of shares of the public company to acquire shares of the private company, or through an amalgamation or a merger. If such transactions result in the shareholders of the public company owning less than 50 per cent of the shares of the company, a reverse take-over occurs.

The transaction needs to be disclosed to both the Provincial Securities Regulator and investors. Such disclosure is done through timely disclosure requirements with respect to material changes and is generally done as a Material Change Report. In addition, an information circular is forwarded to shareholders for their approval of the transaction. The disclosure requirements are that 'prospectus level' information with respect to acquisitions be disclosed. If the Provincial Securities Regulator feels that the issuer has failed to make prospectus level disclosure, the prospectus exemptions may be removed.

If shares are listed in an exchange, the transaction ("backdoor listing") must be approved by the exchange. In addition, all listing requirements must be met.

The advantage of a reverse take-over is that the process can be less expensive and faster than an IPO. One of the major disadvantages is that since the shares were issued subject to prospectus exemption, they may be restricted from trading until,

- 1) a certain holding period has expired or,
- 2) they may be subject to escrow requirements by the relevant exchange.

Private Placements

Depending on the industry and other factors, there is an alternative route to entering the capital market called the private placement. This does not involve the issuing of preliminary and final prospectuses with their associated costs.

Private placements or exempt offerings have become a common form of financing. They provide a more flexible system to permit better matching of issuers and investors.

There are a number of exemptions available in Canada such as the accredited investor exemption. The accredited investor exemption permits the unlimited sale of securities to anyone who is an accredited investor. An accredited investor is defined as, and includes financial institutions, governments, securities professionals, pension funds and registered charities, managed accounts, certain high net worth or high income individuals.

There is no need for an offering memorandum. However, one can be used if this is preferred. Alternatives are a term sheet or an offering document. An offering document carries the same disclosure requirements as a prospectus but does not have to be filed ahead of time with the securities commission.

Private placements generally have restrictions on the resale of the securities. Generally, the restricted period is four months if the issuer met certain criteria at the time of the private placement and 12 months if the criteria were not met.

There are various private placement exemptions, and the rules can get fairly complex. Therefore, if you are contemplating a private placement, please contact your BDO financial advisor.

Bank Loans

Bank loans are by far the most widely used means of financing. For mature companies, this type of funding is usually the most flexible and easiest to obtain. It also allows the owner to retain control over the company and to maintain confidentiality of company information. However, bank loans do not provide the long-term equity base most companies need as a foundation for growth since repayment of principal and interest will put pressure on future cash flow. Moreover, depending on the company's financial history and prospects, bankers may require substantial pledging of company assets which includes, various operating restrictions such as limitations on dividends, capital expenditures, and business acquisitions; maintenance of specific financial ratios and, in many instances, a personal guarantee from the owner.

Venture Capital

For those companies seeking funds during their development stage, venture capital financing may be particularly appealing. This is designed to give investors the possibility of significant appreciation in their investment, often in the form of an eventual IPO, in return for the high risk of investing in a new company. Venture capital can be expensive since it requires giving up a substantial part of the company's equity. Furthermore, venture capitalists will want an influential voice in the company's affairs. They usually require representation on the board of directors and will closely monitor the company's progress.

Other Possibilities

Other possible financing alternatives include: leasing, government loans, research and development partnerships, joint ventures, and convertible debt.

In addition, the securities markets are becoming more global in nature, spawning new opportunities to obtain financing in the U.S., U.K. or elsewhere overseas.

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