

- 1 **hot issues**
- 2 **securities lingo brain teaser**

1 hot issues

Graduating to the Big Board: The Costs and Benefits

Upon becoming a reporting issuer, a TSX-V listed company will incur the costs of complying with provincial securities laws and the rules of the exchange as well as the fees relating to obtaining and maintaining a listing. Therefore, the decision to “graduate” to the TSX would be based on the marginal costs and benefits of this incremental step.

Here are some things a TSX-V listed company should consider when deciding whether to graduate to the TSX.

Benefits

Joining the Big Boys – A listing on the TSX allows a company to join a class of issuers that includes many large reputable domestic and international companies. As the only Canadian exchange for senior issuers, listing on the TSX signifies that a company has met recognized minimum standards and imparts additional confidence for investors and other market participants. The TSX provides the best access to capital of all the Canadian exchanges. Financial media and analysts give considerable attention to TSX listed companies, often resulting in an ongoing public interest in the issuer’s financial performance.

Increased Share Price – Many companies who graduate to the TSX realize a step-up in their share price due, in part, to the increased credibility and public exposure of a TSX-listed company. A survey of 34 companies that graduated between October 14, 2005 and August 10, 2006, found that almost 60 percent of the companies had an average share price over the 30 trading days post-graduation that was higher than the 30 trading days preceding graduation. On average, the share price of all 34 issuers went up over three percent in that time frame, with four companies showing an increase of over 25 percent. Although many companies attain an increase in share value, graduation is just one of many factors which may influence this outcome.

Improved M&A – A company that realizes an increase in share value will find itself in a much more favourable position to engage in mergers and acquisitions (M&A). If trading value is well above book value, shareholders of the listed company can sell at a premium. Shareholders will also experience less adverse dilutive effects where the company uses share consideration in their transactions. Even where share price is unaffected by graduation, the added liquidity and other benefits inherent in a TSX-listed stock makes the company’s shares more attractive to asset owners and shareholders of a target corporation.

Some other benefits of graduating to the TSX include the asset value of the listing itself and the TSX requirement that a market maker be assigned to each listed company. Market makers take positions in a listed stock (by making firm bids or offers) in order to enhance liquidity and smooth out undue price distortions. For example, market makers must buy stock when trading volumes fall below certain thresholds.

Costs

More Costs – Listing on the TSX has four basic administrative costs. The first is the application fee of \$10,000. This cost is waived for graduating issuers. In addition, the TSX foregoes some other application requirements for graduating issuers, such as the sponsorship requirement where the issuer has traded on the TSX-V for over 24 months and is in good standing with that exchange's requirements. The second cost to be considered is the listing fee. Every graduating company is required to pay this fee; however the company retains its trading symbol from the TSX-V. Thirdly, the graduating issuer needs to consider the annual sustaining fee. In general, the sustaining fees are higher for TSX listed companies than TSX-V companies, although the difference diminishes as market capitalization increases. Finally, the issuer should consider their future financing needs since future issues will entail additional listing fees.

More Regulatory Requirements – The TSX and the TSX-V have similar rules. However, in some instances, the graduating issuer will be subject to more restrictive regulatory requirements. For example, the issuer would have shorter time periods to file its interim and annual financial statements and related MD&A. The listed company will be subject to slightly more stringent requirements in respect of its audit committee and corporate governance disclosure. The company will also lose its status as a "venture issuer" upon graduation with the result that provincial securities laws may impose further requirements, particularly relating to continuous disclosure. The issuer will also be required to file an Annual Information Form (AIF), a document that describes the issuer and contains disclosure not unlike that found in a prospectus. Issuers with a current AIF have the ability to raise capital more rapidly through a short-form prospectus.

More Attention – Although greater attention from the media and financial analysts is often welcomed by an issuer and its security holders, this may actually do a disservice to the share price of the listed issuer. If the analysts find that the securities are over-valued in the market, the price may actually decline post-graduation.

This summary does not address all of the issues that may arise should an issuer decide to graduate to the TSX. Any TSX-V issuer which is contemplating listing on the TSX is advised to consult with legal counsel and accountants experienced with TSX graduation issues before proceeding.

For more information, go to: www.tsx.com/en/listings/venture_issuer_resources/graduation_to_tsx

Please refer to the TSX and TSX-V chart – "Summary of TSX and TSX Venture Listing Requirements of Industrial, Technology, and Research and Development Companies".

Capital Pool Company (CPC)

A CPC is a blind pool structured around experienced and historically successful senior management teams. Their goal is to acquire resource assets or businesses and build them into successful Tier-1 publically traded companies.

2 securities lingo brain teaser

What is a CPC?

Answer is in this bulletin.

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