

## POLICY 8

### FUNDAMENTAL CHANGES

- 1.1 A "fundamental change" is a major acquisition accompanied or preceded by a change of control.
- 1.2 A "major acquisition" by a CNSX Issuer means an asset purchase (whether for cash or securities), take-over (formal bid or exempt bid), amalgamation, arrangement or other form of merger, the result of which is that for the next 12 month period at least 50% of the CNSX Issuer's

(a) assets will be comprised of or

(b) anticipated revenues are expected to be derived from

the assets, properties, businesses or other interests that are the subject of the major acquisition.

A "change of control" is a transaction or series of transactions involving the issue or potential issue of that number of securities of a CNSX Issuer that:

- (i) is equal to or greater than 100% of the number of equity securities of the CNSX Issuer outstanding prior to the transaction or series of transactions (commonly referred to as a "reverse take-over"), or
- (ii) otherwise results in a change of control of the CNSX Issuer or a substantial change of management or of the board of directors of the CNSX Issuer.

CNSX may in its sole discretion determine that a transaction or series of transactions is a fundamental change, notwithstanding these thresholds.

In broad terms, a fundamental change to a CNSX Issuer effectively results in a new issuer, such that the existing disclosure record cannot be relied upon to fairly value the company's securities. CNSX Issuers that are contemplating a transaction or series of transactions that may be a fundamental change must consult with CNSX at an early stage to determine how CNSX will characterize the transaction.

- 1.3 CNSX believes that one of the fundamental requirements for a fair and efficient capital market that fosters confidence and protects investors from unfair, improper or fraudulent practices is high quality, timely and continuous disclosure by CNSX Issuers. Disclosure sufficient to permit trading to occur on the basis of information adequate for investors to make informed investment decisions must

- be prepared and disseminated by the CNSX Issuer and provided in an information circular or management proxy circular and Listing Statement.
- 1.4 Enhanced disclosure should be made in connection with the announcement of a fundamental change. The disclosure should initially be made in a news release (to be issued and posted on the CNSX.ca website pursuant to Policy 5).
  - 1.5 The Market Regulator will halt trading in the securities of the CNSX Issuer upon the announcement of a fundamental change to permit dissemination of the material information. CNSX will require the Market Regulator to continue the halt at least until the documentation required under sections 1.6 and 1.7 have been accepted and posted. During the halt, no CNSX dealer may quote or trade in the security in any marketplace or over-the-counter, either as principal or agent.
  - 1.6 In order to qualify for listing the securities of the resulting issuer, the fundamental change must be approved by the securityholders of the CNSX Issuer at a meeting prior to completion of the transaction. The information circular or management proxy circular delivered to securityholders of the CNSX Issuer must contain prospectus level disclosure of the resulting company, including the financial statement disclosure set out in National Instrument 44-101, Ontario Securities Commission Rule 41-501 – General Prospectus Requirements and Form 41-501F1. The information circular or management proxy circular must provide historical financial statements for the target company as if it were going public by way of prospectus and making application for listing to CNSX, plus pro forma financial statements giving effect to the transaction for the last full fiscal year of the target company and any quarter that has been completed in the current fiscal year. Particular requirements are specified in Form 2A. The information circular or management proxy circular must be posted on the CNSX.ca website.
  - 1.7 The Issuer resulting from the fundamental change must meet the criteria for listing and make a complete initial application to qualify its securities for listing on the CNSX System by preparing and filing all of the documents and following the procedures set out in Policy 2 concurrently with filing the information circular or management proxy circular. Completion of the transaction prior to qualification for listing of the securities of the Issuer resulting from the transaction will result in a suspension from listing of the CNSX Issuer.
  - 1.8 Principals of the resulting CNSX Issuer must enter into an escrow agreement as if the company was subject to the requirements of NP 46-201 that provides for the escrow of the principal insiders' shares for a period of 36 months. Escrow releases will be scheduled at periods specified in NP 46-201 for emerging issuers, that is, 10% will be released on the date that the shares commence trading on the CNSX system followed by six subsequent releases of 15% each every six months thereafter. The form of the escrow agreement must be as provided in NP 46-201. CNSX will allow earlier releases from escrow if it is

satisfied that the circumstances of the CNSX Issuer are such that it would be an "established issuer" or "exempt issuer" if it were listed on an exchange and such early release would be permitted under the policy if the CNSX Issuer were an established or exempt issuer.