



## **TABLE OF CONTENTS**

---

<b>INTRODUCTION .....</b>	<b>3</b>
<b>DECIDING WHETHER TO GO PUBLIC.....</b>	<b>4</b>
<b>TIMELINE AND ACTIVITIES FOR GOING PUBLIC.....</b>	<b>10</b>
<b>PREPARING TO GO PUBLIC .....</b>	<b>11</b>
<b>GOING PUBLIC VIA IPO .....</b>	<b>14</b>
<b>GOING PUBLIC VIA RTO .....</b>	<b>18</b>
<b>OPERATING AS A PUBLIC CANNABIS COMPANY.....</b>	<b>21</b>
<b>APPENDICES .....</b>	<b>23</b>
<b>Appendix A: Listing Requirements for the CSE.....</b>	<b>23</b>
<b>Appendix B: Applying for a CSE Listing.....</b>	<b>24</b>
<b>Appendix C: Contents of Prospectus/Information Circular .....</b>	<b>25</b>
<b>Appendix D: Continuous Disclosure Requirements.....</b>	<b>26</b>

Disclaimer: This guide is current, as of the date of publication, and is offered for general information purposes only. It should not be considered a substitute for legal or other professional advice. Offerings of securities in Canada are subject to regulatory approval. Before taking any course of action, please contact the MGO | ELLO National Cannabis Alliance or another professional services provider. We accept no responsibility for loss or damage sustained by your following of the information provided herein.

## INTRODUCTION

---



*Denied access to many fund-raising avenues, US-based cannabis businesses are going public in Canada to generate the capital that fuels long-term growth.*

As the leader of a successful cannabis enterprise you're at the forefront of a multi-billion dollar industry emerging right before your eyes. In other industries your next step might be a go public transaction on one of the US stock exchanges, such as the New York Stock Exchange or NASDAQ. Unfortunately, in the cannabis industry your options are limited in the US. As a result, many of your peers are considering another path that leads to Canada and provides access to the resources you seek.

In Canada, you can engage a community of investors enthusiastic about supporting enterprises like yours, but this path is not without risks. Without proper planning you may fail to raise capital and your business may be negatively impacted.

The good news is that the MGO | ELLO National Cannabis Alliance has served as advisors to numerous US-based cannabis businesses that have successfully gone public in Canada. We understand what is needed to complete this journey, and we can guide you through every step of the process, helping you manage risks while seizing opportunities.

## DECIDING WHETHER TO GO PUBLIC

---

### WHY GO PUBLIC?

Your cannabis enterprise is sophisticated, with operations, finances, and experienced leadership that would rival any “traditional” company at the same growth stage. Your products and services are best-in-class and you’re barely keeping up with customer demand.

You’re ready to reach the next level, accessing a deeper pool of capital that would make it possible to put all your plans into action, but as a cannabis company based in the US, your options for raising capital are limited. Going public in Canada provides an opportunity to raise capital fast by reaching a wide distribution of investors.

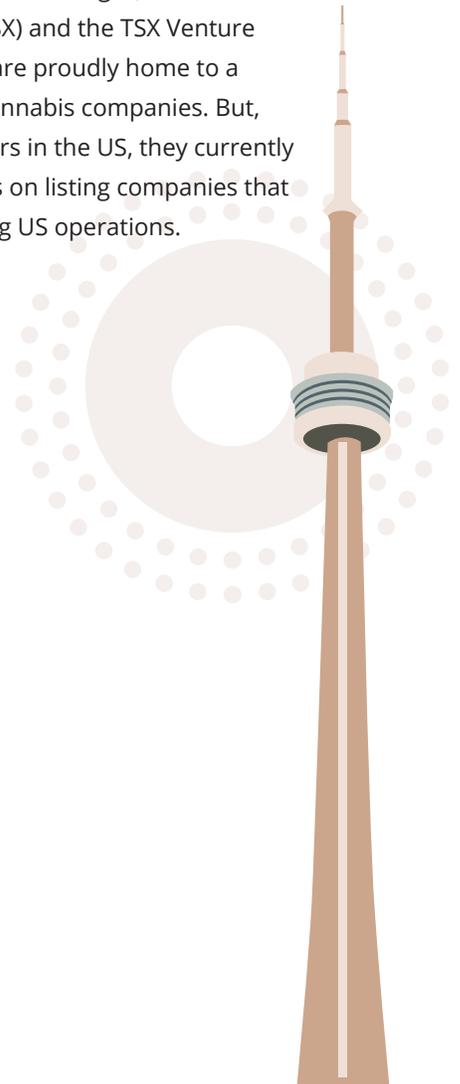
There are as many reasons to raise capital as there are companies seeking to do it. The proceeds can be used to:

- Expand existing operations
- Introduce new product lines
- Enter new markets or states
- Acquire other operators or license holders
- Invest in research and development
- Pay down debts and improve financial health.

### HOW CANADA BECAME THE CANNABIS CAPITAL

In Canada, medical cannabis has been legal since 2001, and adult-use cannabis was legalized nationwide in 2018. The legality of cannabis in Canada, plus a welcoming regulatory, financial, and investment environment has made the nation home to a number of large cannabis enterprises. This has led to growth that has been fueled by the ability to access capital via public listings.

The two most active exchanges, the Toronto Stock Exchange (TSX) and the TSX Venture Exchange (TSX-V), are proudly home to a number of large cannabis companies. But, similar to their peers in the US, they currently impose restrictions on listing companies that have plant-touching US operations.



### **Listing on the Canadian Securities Exchange**

The Canadian Securities Exchange (CSE) is an “alternative” exchange focused on micro-cap and emerging companies. The CSE calls itself a “modern and efficient alternative for companies looking to access the Canadian public capital markets.” As a result, the CSE offers simplified reporting requirements that lower the barriers to listing.

Perhaps most importantly, the CSE has taken a progressive approach to the cannabis industry and does not block companies with plant-touching US cannabis operations. As a result, a growing number of US businesses are seeking to list on the CSE.

### **Critical Mass of Cannabis Companies**

#### **Attracts Investors**

The emergence, and subsequent rise in value, for cannabis companies listed in Canada has been a highly discussed topic for the last several years. Cannabis companies seeking capital know that listing in Canada will earn attention.

As a result, a feedback loop has developed, where investors seeking growth opportunities look to cannabis companies in Canada, and cannabis companies seeking capital know that listing in Canada will earn attention.

### **Access to Experienced Professionals**

The trend of cannabis companies going public in Canada has also created a network of essential resources for companies seeking a listing. Going public requires support from a strong team of accountants, lawyers, investment bankers, and other advisors, who guide every step in the complicated process. It is necessary to find professional services providers in both the US and Canada that have experience performing this transaction with cannabis companies.



#### **BENEFITS OF THE CSE**

- No prohibition for US-based cannabis companies
- Simplified reporting requirements tailored for small-cap companies
- Access to capital for early-stage companies
- No mandatory sponsorship requirements

#### **CSE CANNABIS INDUSTRY RISK DISCLOSURE POLICY**

“There are particular risks related to the conflicting U.S. federal and state laws surrounding both medical and recreational use of cannabis.

CSE maintains the position that appropriate risk disclosure for existing and potential investors should include a comprehensive discussion of the current legal framework, including the federal law and current enforcement initiatives, as well as the state and municipal laws pursuant to which an issuer will conduct its business.”

#### **Mark Faulkner**

*CSE Vice President, Listings & Regulation*

## ADVANTAGES AND DISADVANTAGES OF GOING PUBLIC

### ADVANTAGES

**Future capital raises:** Once public, you can use the public markets to raise additional capital at a later date, normally at a higher valuation than a private company.

**Improved public awareness:** Going public can be a highly-publicized event raising awareness and earning headlines that introduce products and services to entirely new audiences.

**Acquisition of talented staff:** Going public can make the company more appealing by offering equity ownership options that act as motivational and retention tools.

**Securities used for acquisitions:** Publicly traded shares can be more attractive to a seller than shares with no ready market, giving an advantage in negotiations.

### DISADVANTAGES

**Increased scrutiny:** Public disclosure rules require sharing business details. Regulatory authorities, the public, and your competition will examine that information.

**Regulatory oversight:** Meeting reporting and regulatory requirements demand a significant commitment of time and resources.

**Reduced management control:** As a public company, corporate decisions require approval from the board of directors and/or shareholders.

**Increased costs:** The process of going public requires a significant investment. The demands of operating as a public company create a continuous incremental cost burden.

**Equity dilution:** Going public involves selling ownership stakes to the public. Depending on current and future valuations, existing owners and investors may be diluted.



### IS THE TIMING RIGHT?

After weighing the pros and cons and considering the impact on your company, the next step is determining the right time to go public. Capital markets rise and fall in cycles, endure technical corrections, run in streaks with or against particular industries, and also react to unpredictable political and economic events. Judging timing is equal parts science and art, with the ultimate goal of entering the market as it apexes in your favor.

## OPTIONS FOR GOING PUBLIC

### Initial Public Offering (IPO)

Your private company prepares and files a preliminary prospectus with the applicable provincial Canadian securities regulator and the CSE. After completing rounds of review, you file a final prospectus. Upon acceptance, your shares become available for purchase by retail investors.

### Reverse Takeover (RTO)

Your private company is acquired or merges with a public shell company listed on the CSE. Via an exchange of shares or other assets, you gain majority ownership of the ensuing entity and its listing. The filing is only reviewed by the CSE. Shares of the entity can be sold via private placement and to the investing community.

	IPO	RTO
<b>TIME TO TRADING</b> While there are no guarantees, the RTO is considered the faster option, mainly because the transaction only needs to be approved by exchange authorities. An IPO requires longer regulatory review and comment periods.		
<b>STOCK DILUTION</b> In an RTO, you will be giving up a percentage of shares to the shell company's legacy shareholders. This is not a concern in an IPO.		
<b>DUE DILIGENCE</b> IPO due diligence procedures are considered more extensive, and costly, because Canadian securities regulators must approve the transaction and there are liabilities attached for the issuer, underwriters, and other parties.		
<b>LIABILITIES</b> In an RTO, there is a chance the shell company will have legacy and contingent liabilities, whereas an IPO represents a fresh beginning.		
<b>STIGMA</b> Going public via an RTO is more common than completing an IPO. There may be some lingering doubt about RTOs as a "back-door" listing, but that mindset is changing, and is all but absent for cannabis industry operators and investors.		
<b>TIME TO CLOSE FINANCING</b> In an RTO, you can begin trading when the transaction is announced, and can potentially complete the capital raise in private placement. In an IPO, you cannot begin marketing until the preliminary prospectus is filed and you cannot raise capital until the final prospectus is filed.		
<b>COSTS</b> Competition over shell companies has increased the cost of RTOs, yet due to the involvement of fewer parties and less regulatory oversight, the RTO is considered the less expensive option.		
<b>CAPITAL POTENTIAL</b> There are no limits to the amount of potential capital raised, but IPOs are commonly considered higher-profile and may be more appropriate for larger capital raises.		

## COSTS OF GOING PUBLIC IN CANADA

Getting your cannabis company ready to go public requires significant expenditure. These costs may vary considerably, depending on the size and complexity of your cannabis company's operations.



### AUDIT & ACCOUNTING

Going public requires the disclosure of financial and operational details. Two major components of this are historical financial statements and reviews of interim periods.



### LEGAL FEES

Legal fees are incurred when you are drafting the required filing documents, preparing material contracts, affecting, restricting, and completing due diligence procedures throughout the transaction.



### MARKETING

Sharing your cannabis company's value journey is an essential stage of going public. Creating awareness in public and financial markets will be an important factor contributing to the success of your effort. You will incur significant expenses in drafting and distributing listing/offering documents and mounting a successful roadshow. If you choose to file in Québec, you would be required to translate essential documents into French.



### OTHER COSTS

- Filing & listing fees
- Securities' commissions
- Preparation of valuation reports and other technical reports
- Indirect costs of leadership and staff supporting internal efforts



### UNDERWRITER'S COMMISSION

One of the most significant expenses associated with an IPO is the underwriter's commission, which can vary anywhere between 5%-7% of the offering and is subject to negotiation between you and the underwriter. Other factors include:

- Nature of underwriting commitment
- Current market conditions
- Type of securities sold
- Industry and market comparisons.

One large advantage with the RTO option is that it may not be necessary to engage an underwriter for completion of the transaction.



### TAX ADVISORS

Your company may need to undertake certain restructuring activities in preparation for going public and to operate as a public company. You'll need a team of experienced tax advisors to guide the restructuring process and ensure your cannabis company is in an optimal tax position.



### RTO COSTS

Depending on the nature of the RTO transaction, there may be a cash payment involved in negotiating with the shell company. Other costs unique to the RTO will include the extensive due diligence performed on the shell company prior to completing the transaction.

## IS YOUR CANNABIS COMPANY READY TO GO PUBLIC?

Once you've gained a sufficient understanding about the processes involved in going public, the time and resource commitments needed, and the impact this process will have upon your company, then you'll be ready to make the final decision. Use the checklist below to make sure you and your leadership are prepared for the journey ahead.

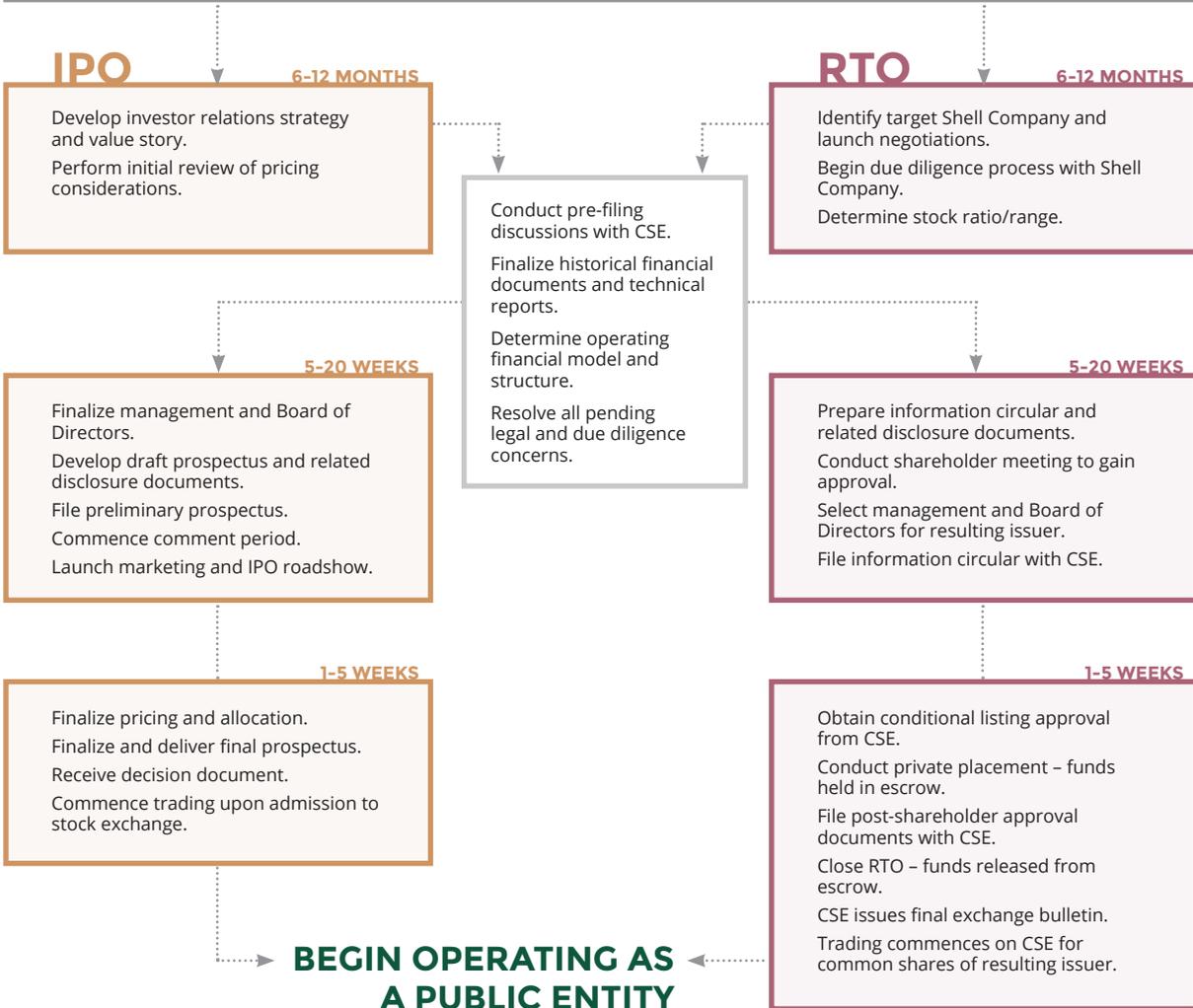
ASK YOURSELF AND YOUR LEADERSHIP...	Very Confident	Confident	Unsure
Does going public fit in with our long-term growth strategy? .....			
Have we explored all alternative funding options? .....			
Are our company's products or services industry-leading and, as such, visible to customers and investors? .....			
Are our company's prospects for long-term growth robust and demonstrable? .....			
Do we have the necessary resources/capital for going public? .....			
Does current leadership have experience going public and/or operating a public company? .....			
Do we have, or can we implement, policies, procedures, controls, and systems adequate for the scrutiny of operating as a public company? .....			
Are we capable of providing at least two years of historical financial statements and other financial documents? .....			
Do we have, or can we build, a strong investor relations function to guide internal and external corporate communications? .....			
Do we have a long-term plan and capability to meet ongoing regulatory compliance and reporting demands? .....			

# TIMELINE AND ACTIVITIES FOR GOING PUBLIC



The exact timing of the processes necessary for going public is determined by a number of factors, including the complexity of the offering, the readiness of your cannabis company, and the timing of industry and market trends. The following is a recommended timeline that provides ample flexibility to assess and prepare for the issuance.

<p><b>12 MONTHS</b></p> <p>Finalize long-term business plan.</p> <p>Assess corporate governance and reporting requirements for public companies in Canada.</p> <p>Understand the listing requirements for the CSE.</p> <p>Establish internal teams responsible for managing the IPO/RTO.</p>	<p>Review accounting policies and historical financial records.</p> <p>Assess internal controls and financial reporting systems, and upgrade where necessary.</p> <p>Determine whether to seek an IPO or an RTO.</p> <p>Assess Board of Directors and begin process of strengthening team.</p> <p>Perform audit/review of financial statements.</p>	<p>Perform tax compliance review.</p> <p>Choose external advisors:</p> <ul style="list-style-type: none"> <li>• Underwriter</li> <li>• Legal Counsel</li> <li>• Audit Provider</li> <li>• Tax Advisor</li> <li>• IPO/RTO Readiness Consultant</li> </ul>
--	---	--



## PREPARING TO GO PUBLIC

Many institutional investors “invest in the people” as much as the plan.

### BUILDING INTERNAL & EXTERNAL TEAMS

Strong leadership is a differentiator for great companies. Underwriters and investors will look closely at your people – searching for the right mix of skill, experience, and motivation – before deciding whether to invest. Your top leadership must be collaborative and willing to undertake and execute the process of going public, and have the skills necessary to operate as a public company.

#### EXTERNAL TEAM

Going public successfully will require deep insight and guidance from a coordinated team of advisors.

Professional, experienced advisors will help your company prepare for going public, accurately assess and market your company's value, provide introductions to investors, and help you navigate obstacles in preparation for operation as a public company.

#### ADVISORS

- Underwriters
- Independent Auditors
- Legal Counsel
- Tax Advisor
- IPO Readiness Consultant
- Investor Relations Firm
- Share Registrar/Transfer Agent

#### INTERNAL TEAM

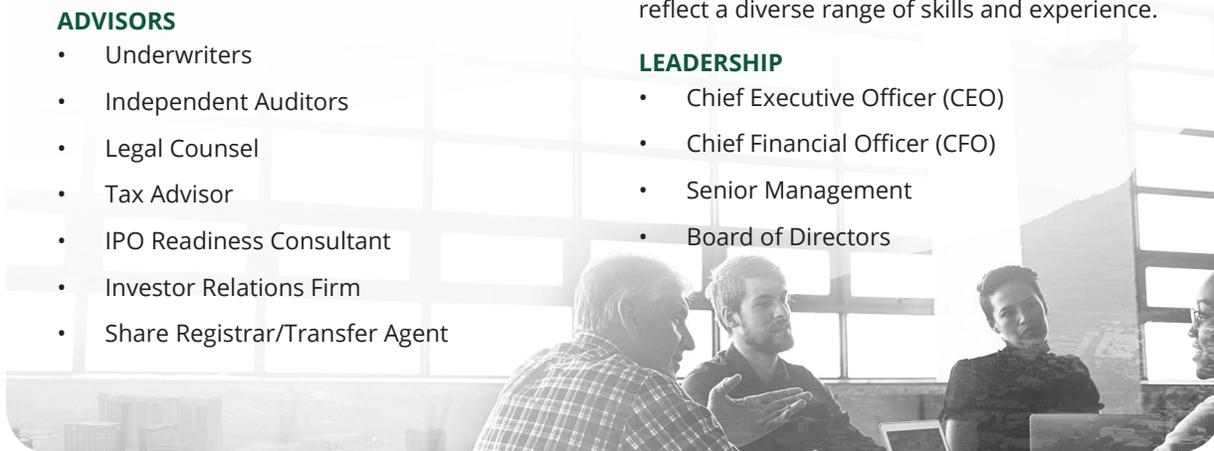
Strong leadership at the top means your CEO and CFO must be well-equipped to navigate pre-IPO/RTO processes and, subsequently, manage the operations of a public company.

Your CEO and CFO will be supported by senior management, ideally experienced with public company operation.

Your Board of Directors will be a valuable source of guidance and counsel, so it should reflect a diverse range of skills and experience.

#### LEADERSHIP

- Chief Executive Officer (CEO)
- Chief Financial Officer (CFO)
- Senior Management
- Board of Directors



### RECRUITING AND REWARDING SENIOR TALENT VIA COMPENSATION PLANS

Having the right leadership team in place prior to going public will be key to the success of your journey. Central to attracting and motivating an ideal team is the compensation plan. Incentives that include performance-based compensation and share options are strong motivators leading to exceptional performance.

Compensation plans will come under scrutiny by both investors and regulators. The latter will examine whether compensation is properly disclosed, whereas investors may gain confidence knowing your team is properly motivated to do the job.

## TAX CONSIDERATIONS

The process of becoming a public company may alter the legal, financial, and commercial activities of your company. As a result, a comprehensive review, and likely overhaul, of the tax function is a common step before going public. You will want to identify and limit opportunities for exposure and implement a tax structure that will prove advantageous once your company is public.

Tax due diligence will be an essential priority for the organization as you may lose some tax benefits for private companies, but will gain other opportunities as a public company. There are also significant tax changes that will affect shareholders and the distribution of dividends, and care must be taken to avoid incurring additional sales tax liability.

Furthermore, there are unique tax requirements for a US-based company issuing a public filing in Canada. The situation is complex and will require the guidance of tax professionals throughout the process. Be sure that these professionals are well-versed in requirements for both Canada and the US, and are working in collaboration with the auditors and legal experts on your internal and external teams.

### Jurisdiction of Incorporation

As a cannabis company based in the US, going public in Canada will require establishing a business entity incorporated in at least one Canadian province. This is because your Canadian entity, which will be publicly traded and raising capital via those trades, will need to

attain and maintain status as a Foreign Private Issuer so it does not have to register and report to the US Securities Exchange Commissions (SEC), which currently prohibits companies with plant-touching operations in the US.

For an IPO, you will need to create a subsidiary and/or spin-off that is incorporated in Canada, whereas in an RTO, the company resulting from the transaction will be incorporated in Canada.

### Status as a Foreign Private Issuer

When executing restructuring activities, it will be important to maintain status as a Foreign Private Issuer. The SEC defines a Foreign Private Issuer as:

*“A foreign company will qualify as a foreign private issuer if 50% or less of its outstanding voting securities are held by U.S. residents; or if more than 50% of its outstanding voting securities are held by U.S. residents and none of the following three circumstances applies: the majority of its executive officers or directors are U.S. citizens or residents; more than 50% of the issuer’s assets are located in the United States; or the issuer’s business is administered principally in the United States.”*

- *Accessing the U.S. Capital Markets — A Brief Overview for Foreign Private Issuers*

### FOREIGN PRIVATE ISSUER + ADVANTAGES

- Exemptions for issuing securities outside US.
- Exemption from SEC Exchange Act reporting.
- No SOX requirements for non-SEC reporting issuers.
- Exemptions for M&A transactions.

### FOREIGN PRIVATE ISSUER X DISADVANTAGES

- Tax complications related to restructuring.
- Securities law complications related to restructuring.
- May require complicated capital structure.
- Restructure requires shareholder approval.
- May need to comply with US export controls and regulation.
- Requires monitoring of shareholders.

## **PREPARING FOR FINANCIAL STATEMENT AUDITS**

Audited financial statements are central to drafting disclosure documents required of



going public. It is essential to plan well ahead of time to ensure this step can be completed so it does not hold up other processes. The audit process will typically take three months: four weeks of planning; four weeks of fieldwork; and four weeks to compile the audit report.

It is recommended that your cannabis company begin operating as if it is already public before the issuance. Your team should be able to close the books and generate the information required of a public company at least one quarter before going public.

### **LOCK-UP PERIODS**

Upon completing the IPO/RTO, there will be a lock-up period when large shareholders – including company executives and major investors – are restricted from selling their shares. The lock-up period is designed to help stabilize the stock's price once it enters the market.

When your employees and early investors receive stocks and/or options, they will typically sign a contract that prohibits trade for a 90-180 day period following the closing.

The underwriting bank will also reaffirm the lock-up period. The length of the lock-up period will be determined by your company's C-suite executives in collaboration with key investor groups.

It is important to communicate the details of, and reasons behind, the lock-up period to employees and investors. This is especially important if employees are receiving shares in lieu of a pay check during go public process. Employees (and investors) are often eager to liquidate their shares to “cash out” from the transaction. Providing financial planning and education services will help convey their role in maintaining a desirable stock price.

### **REPATRIATION OF CAPITAL**

Whether performing an IPO or RTO, the capital raised by going public will initially reside with your Canadian entity. Issues with banking relationships in the US – due to the federal prohibition – may cause difficulty transferring capital to your US entity, or other jurisdictions where you have operations.

There is no single solution to issues of repatriating capital raised in Canada. It is important to consult with advisors in Canada and the US to proactively plan for addressing repatriation.

# GOING PUBLIC VIA IPO

## PREPARING DISCLOSURE DOCUMENTS

IPO DUE DILIGENCE

REGULATORY REVIEW

PRICING SECURITIES

IPO ROADSHOW

CLOSING



### PREPARING DISCLOSURE DOCUMENTS

The preparation of disclosure documents is necessary for the success of your journey and will require input from a number of parties. The intention of disclosure documents is to ensure that potential investors receive transparent

communication of all material facts related to the securities you plan to issue. As such, disclosure documents must present a clear view of both the positive and negative

factors underlying your company and the securities it will offer.

The process of drafting disclosure documents will be detailed and time-consuming. It is recommended that you prepare internal and external teams well in advance of commencing drafting.

It is of the utmost importance that disclosure documents contain a “full, true and plain disclosure of all material facts relating to the securities offered.” Responsibility for accuracy is shared by all participants in the drafting and filing of disclosure documents. Should a misrepresentation be discovered, your company, its management and directors, the underwriters, and legal counsel could face civil liability and penalties.

#### Drafting the Preliminary Prospectus

Your preliminary prospectus will contain all of the disclosures that will appear in the final prospectus, except for details about the price and number of shares to be issued, and other material facts that change, or are requested, during the review process.

The purpose of the preliminary prospectus is two-fold. First, it will provide securities regulators with an opportunity to review the disclosures in the prospectus before sales begin. Secondly, it will also act as a sales document your underwriters will use when approaching potential investors and assessing interest.

#### Roles and Responsibilities

The drafting process involves input from a number of parties and can take several weeks to complete. Your legal counsel will have a central role in the drafting process. They will help structure the prospectus and write several sections. Members of your leadership team – CEO, CFO, COO, et al. – will craft the business description and source key financial and non-financial data. Whoever will be in charge of investor relations – whether in-house or outsourced – will provide information and shape the document’s tone and content.

Your team of underwriters will, ultimately, determine the details and descriptions of the securities offered and may also provide attachments, schedules, or amendments, which provide general industry information. Your audit firm will help prepare necessary historical financial statements and disclosures.

#### Getting Down to Business

The first step in drafting the prospectus is generally to establish a working group and assign responsibility to individuals for gathering information and preparing parts of the prospectus. In the initial meeting, you’ll reinforce and convey the strategic goals and future direction of your company, as

Disclosure documents must present a “full, true and plain disclosure of all material facts relating to the securities issued”

*Ontario Securities Act, Sec 56 (1)*

# GOING PUBLIC VIA IPO

PREPARING DISCLOSURE DOCUMENTS

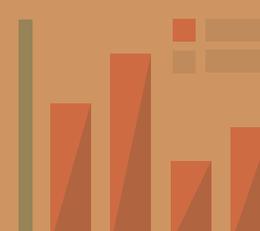
## IPO DUE DILIGENCE

REGULATORY REVIEW

PRICING SECURITIES

IPO ROADSHOW

CLOSING



established in your business plan. In this way all responsible parties will align while engaging in the drafting process.

### **WHEN PERFORMING AN IPO THE AUDITOR MAY FILE SEVERAL IMPORTANT LETTERS:**

**Advice Letter:** Relates the extent of the auditor's work in filing the prospectus.

**Letter of Understanding:** Outlines auditor's role in due diligence proceedings to underwriters.

**Consent Letter:** Confirms auditor's role in developing the prospectus and is signed when the final prospectus is filed.

When sections of the preliminary prospectus have been completed and integrated into a first draft, it will be circulated among leadership for a final review. Expect that the preliminary prospectus will undergo several revisions before a final document is created.

### **Filing the Preliminary Prospectus**

When all parties agree the preliminary prospectus is complete, you'll then prepare a certificate – signed by your CEO, CFO, and two directors who represent the board – and file it alongside the prospectus. The underwriters will also prepare and file a certificate. Your auditors will submit historical financial statements and other communications, but these are not typically signed until the final prospectus is filed. The auditor may be required to submit

a status report documenting their work to date, alongside the preliminary prospectus.

Once the preliminary prospectus is drafted, it is filed with the securities regulators

in the provinces and territories where you plan to become an issuer. If filing a prospectus in Québec, it will need to be translated into French.

**If a material change occurs** after the filing of the preliminary prospectus, and before the final prospectus is filed, an amended prospectus **must be filed within 10 business days.**

## **IPO DUE DILIGENCE PROCESSES**

Extensive due diligence will be performed by the underwriters to gain a comprehensive understanding of your business, its assets, liabilities, and management. They will use this information to arrive at an appropriate price of securities, and also protect themselves from liability associated with the prospectus.

### **What is Involved in Due Diligence Procedures**

Expect that the due diligence process will be demanding. Underwriters' legal counsel will closely examine your company's financial and business information, conduct discussions with senior management, inspect operating facilities and associated assets, and review contracts and other agreements.

Leadership should be prepared to respond to inquiries that include:

- Business and operational performance.
- Industry trends and competition.
- Revenue and sales.
- Customer relationships.
- Accounting policies.
- Effectiveness of internal controls.

Your auditor will also participate in the due diligence process, providing status updates to the underwriters and commentary on whether they expect to issue an Advice Letter with the final prospectus.

# GOING PUBLIC VIA IPO

PREPARING DISCLOSURE DOCUMENTS

IPO DUE DILIGENCE

REGULATORY REVIEW

PRICING SECURITIES

IPO ROADSHOW

CLOSING



## REGULATORY REVIEW

Once you file the preliminary prospectus, provincial securities regulators will review the disclosures to determine whether they comply with securities laws and regulations. The securities regulators will issue a comment letter with requests to change certain disclosures in the prospectus.

Your company's legal counsel will then review the comment letter, and respond by making the requested changes or by challenging the grounds for the changes. Subsequent to receiving these comments the regulators will respond by either providing clearance for filing the final prospectus, or they will issue another comment letter, requesting further updates.

## PRICING OF SECURITIES

Upon implementing necessary updates to your cannabis business' corporate structure and operations, you will have the opportunity to begin working with your lead underwriter, and/or valuation specialists, to establish a baseline value for your company. From this, you can then determine the fundamentals of your offering.

### Type of Securities

Most public issuances are composed of common stocks only, or a mix of common stocks and warrants to purchase additional shares. Other options include issue debt, multiple voting shares, convertible debentures, and preferred stocks.

### Price of Securities

Your underwriters will prepare an initial indicative price based on your cannabis company's fundamental public offering. Aspects they will examine include:

- Price-earnings ratio.
- Earnings projections.
- Current cash flow.
- Past and projected growth rates.
- Strength of the balance sheet.
- Tangible assets.
- Depth of management experience and skills.
- Industry competition.
- Appropriate multiplier/discount rate based on industry comparatives.

Upon establishing the initial indicative price, your underwriters will proceed by assessing market demand for the shares by consulting with their network of potential investors. The underwriters will then adjust the price up or down based on relative interest.

### Number of Securities

Your underwriter will provide conditional guidance on the appropriate number of securities to be offered. They will follow industry standards to determine how many shares are sufficient for broad distribution and healthy aftermarket trading. They will also consider potential for future capital raises via the issuance of new securities. The optimal number of securities is in direct correlation with the price of the securities, and an ideal ratio

# GOING PUBLIC VIA IPO

PREPARING DISCLOSURE DOCUMENTS

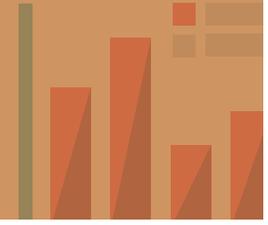
IPO DUE DILIGENCE

REGULATORY REVIEW

PRICING SECURITIES

IPO ROADSHOW

CLOSING



can be reached by raising/lowering the price or increasing/decreasing the number of securities.

## Final Pricing

Background research, initial assessments, industry comparisons, and discussions with your underwriter and potential investors will begin well before your company goes public. But a final pricing decision will not be made until the underwriting agreement is signed, generally, the day before the final prospectus is filed, or when the final agreement is signed with the shell company.

## IPO ROADSHOW

Upon completion of the preliminary prospectus, your underwriters will commence marketing your securities via a series of events with institutional investors and other investment groups. You'll need to deliver a compelling message about your cannabis company's long-term growth potential and the effectiveness of leadership.

Underwriters will primarily guide the IPO roadshow process by identifying potential investors and arranging meetings. Your team

will collaborate with the underwriters to develop a presentation and printed materials for each meeting. Typically, IPO roadshows are a fast-paced affair with several

meetings a day, in various cities, over a one- or two-week period.

Road-show presentations will involve key members of your leadership team, providing potential investors with an opportunity

to assess these executives in-person. The 30-minute presentation is typically followed by a Q&A period. The goal will be to make a strong first impression, which means your presentation should be well-rehearsed and well-orchestrated. You may consider engaging an investor relations firm to coach the presenters, shape messaging, and develop the presentation.

## FINALIZING THE PROSPECTUS AND CLOSING

Once your cannabis company and securities regulators are satisfied that all concerns have been addressed during the regulatory review period you'll receive clearance to file the final prospectus. At this point, the underwriters will have assessed the interest of investors in the securities and make a final determination on pricing. Pricing will be incorporated into the prospectus and the final will be filed with securities regulators. Upon acceptance the securities commission will issue a receipt.

When the receipt is received, your underwriters may commence selling the securities.

Once the listing is granted, conditions of the listing must be fulfilled and the securities must be posted for trading within 90 days.

## Closing the Transaction

The final settlement, or closing, generally occurs one to two weeks following the date on which the final prospectus is filed, and Canadian securities regulators issue a decision document. At the closing, the securities offered by your company are issued, the proceeds from the issues are delivered, and shares will begin to trade on the CSE.

Interest garnered during the roadshow has a substantial impact on the **final pricing of securities** and **generates excitement** among potential investors.

## GOING PUBLIC VIA RTO

### IDENTIFYING SHELL COMPANY RTO STRUCTURES

DUE DILIGENCE  
DRAFTING INFORMATION CIRCULAR  
PRIVATE PLACEMENT & ROADSHOW  
SHAREHOLDER MEETING



#### IDENTIFYING AN RTO SHELL COMPANY

Once considered a “back-door” entry to a public listing, the RTO has emerged as a viable, and in many cases preferred, option to the IPO. As a result, competition for “clean” shell companies has increased.

Shell companies can be found in a variety of shapes and sizes. Some will be formerly operational companies that have gone dormant. Others will have been created specifically to attract interest in an RTO transaction. Some will have cash and other assets – and associated liabilities. Many promising shell companies will have an active listing on the CSE; others can only be found via lists maintained by regulatory authorities or by working with a shell broker.

You can begin the process of identifying a promising RTO candidate by checking lists maintained by the CSE, or by collaborating with investment banks, financial advisors, and other professional groups with experience navigating Canadian securities markets.

#### FACTORS TO CONSIDER

**Ownership/Management:** Who controls the shell? What are their backgrounds? What is the current trading status? Why is the shell available now?

**Reporting Background:** Examine previously issued filings and other disclosure documents. Are there late or delinquent filings or other red flags?

**Capital Structure:** What are the number of shares that are outstanding or floating? Any outstanding warrants, options, or convertibles? What is the number of legacy shareholders?

**RTO Terms:** What is the shell company looking for in return? High- or low-percentage of ownership? Cash vs. Equity?

#### POTENTIAL RTO STRUCTURES

STRUCTURE	GENERAL DESCRIPTION
<b>Share Exchange/ Acquisition</b>	Shell company acquires cannabis company through the issuance of shares, cash or a combination of both. Cannabis company becomes a wholly-owned subsidiary of shell company. Requires full shareholder approval.
<b>Amalgamation/ Merger</b>	Cannabis company merges with, and into, shell company. Cannabis company becomes extinct, and shell company is the surviving entity. Requires majority shareholder approval.
<b>Reverse Triangular Merger</b>	Shell company incorporates a wholly-owned subsidiary in cannabis company's jurisdiction. Upon closing, shares of your company are exchanged for shares of the shell company. Subsidiary is dissolved, and your company becomes a wholly-owned subsidiary of the shell company. Requires majority shareholder approval.

# GOING PUBLIC VIA RTO

IDENTIFYING SHELL COMPANY

RTO STRUCTURES

**DUE DILIGENCE**

**DRAFTING INFORMATION CIRCULAR**

PRIVATE PLACEMENT & ROADSHOW

SHAREHOLDER MEETING

CLOSING



## RTO DUE DILIGENCE PROCESSES

Due diligence on the prospective shell company will be performed by your cannabis company, and the shell company will do the same with regard to your cannabis company. You'll be looking for a shell with a "clean history" and no outstanding debts or liabilities. The shell company, on the other hand, will be taking a close look at your cannabis company's fundamentals to assess whether your company is ready to go public, and if you and your team have the necessary experience to manage a public company. The two parties will seek to reveal liabilities, determine relative value, and ultimately decide if the pairing is a good fit.

### What is Involved in Due Diligence Procedures?

The due diligence process will be demanding. Legal counsel for all related parties will probe deeply into each respective company and its affairs by examining financial and business information, conducting discussions with senior management, inspecting operating facilities and associated assets, and reviewing contracts and other agreements.

Leadership should be prepared to respond to inquiries that include:

- Business and operational performance.
- Industry trends and competition.
- Revenue and sales.
- Customer relationships.
- Accounting policies.
- Effectiveness of internal controls.

## DRAFTING AND FILING AN RTO INFORMATION CIRCULAR

When seeking a listing on the CSE, your cannabis company will need to prepare an information circular containing transparent disclosures for both companies involved in the RTO, as well as management details, governance specifics, and other topics. This will be a "prospectus-level" document that includes many of the same drafting and review procedures as if you were drafting an IPO prospectus.

### Who Drafts the Information Circular?

The RTO information circular will be drafted in collaboration with the shell company. Leadership and the Board of Directors for both companies will provide detailed information about the businesses, material facts, liability disclosures, and other essential information gained during the due diligence procedures.

Finally, the information circular will also provide information about the resulting entity and subsequent CSE listing that will result from the RTO. These details will be agreed upon during the negotiation of the RTO.

### Filing the Information Circular

One advantage of the RTO process is that the period of regulatory review and comment are typically much shorter than that of an IPO. This is partially because the shell company already has a CSE listing and is, presumably, operating within the guidelines of Canadian securities regulations. As such, the information circular does not need to be filed with or reviewed by securities regulators.

## GOING PUBLIC VIA RTO

IDENTIFYING SHELL COMPANY

RTO STRUCTURES

DUE DILIGENCE

DRAFTING INFORMATION CIRCULAR

PRIVATE PLACEMENT & ROADSHOW

SHAREHOLDER MEETING

CLOSING



Instead, the information circular will be filed with the CSE to inform them of the change in the ownership/control of the listing. The CSE will review the document and provide comments. If everything is in order, the CSE will issue conditional approval.

Upon gaining conditional approval, you can begin executing plans for the shareholder meeting, which will be held to gain majority support for the RTO transaction. The information circular will be the primary disclosure document guiding the shareholder meeting.

### PRIVATE PLACEMENT AND ROADSHOW

During the RTO process, you may choose to undertake a private placement and offer securities to a select number of potential investors. The private placement may be executed to ensure that the resulting entity following the RTO is able to meet the requirements of listing on the CSE, and has sufficient working capital to operate as a public company post-closing.

During the private placement you'll have the opportunity to conduct presentations with investment banks, institutional investors, and other investment groups. Just as in an IPO roadshow, you'll need to deliver a compelling message about your cannabis company's long-term growth potential and the effectiveness of leadership.

Presentations will involve key members of your leadership team, providing potential investors with an opportunity to assess these executives in-person. The 30-minute presentation is typically followed by a Q&A period. The goal will be to make a strong impression, which means your presentation should be well-rehearsed

and well-orchestrated. You may consider engaging an investor relations firm to coach the presenters, shape messaging, and develop the presentation.

The securities offered in private placement may be subscription receipts, which will convert into common shares when the RTO is complete. Once the private placement closes, funds raised will be held in escrow until the RTO is finalized.

### SHAREHOLDER MEETING

Before completing the RTO you will need to gain approval from the shell company's shareholders. Depending on the nature of the transaction and the shell company, communicating with, and obtaining approval from, legacy shareholders may be a complex and on-going matter.

Before the shareholder meeting, the leadership of your company and the shell company will need to complete the information circular, which provides necessary information and disclosures about both companies, and also provides details about the ensuing entity.

The information circular must be printed and sent to the shareholders before the meeting.

### CLOSING THE RTO

Upon gaining majority approval of the shell company's stakeholders, you'll file the approval documents with the CSE. The CSE will issue a final bulletin demonstrating acceptance of the listing. Private placement funds will be released from escrow and common shares of the resulting issuer will begin retail trading on the CSE.

#### Shareholder Meeting Requirements:

**Publish Record Date** for shareholder meeting at least 7 days prior to Record Date.

**Record Date** for shareholders meeting must be at least 30 days prior to meeting.

**Deliver Meeting Materials** for shareholder meeting at least 21 days before meeting.

## OPERATING AS A PUBLIC CANNABIS COMPANY

Almost immediately upon closing the IPO/RTO, your cannabis company will need to be prepared to meet the regulatory and reporting demands of a public company. As such, it is highly recommended that you understand the requirements of operating as a public company and implement all structural, operational, financial, and governance changes prior to closing the transaction.

### REQUIREMENTS FOR SUCCESSFUL OPERATION AS A PUBLIC COMPANY

#### CORPORATE GOVERNANCE

Considerations		Resources
The greater scrutiny and liability placed on public companies requires that you adopt corporate governance policies appropriate for a public company.	Management decisions reviewed by Board of Directors. Board of Directors represents and protects the interests of shareholders.	National Policy 58-201, <i>Corporate Governance Guidelines</i>
Keep in mind issues related to maintaining Foreign Private Issuer status when establishing policies.	Board of Directors meet independence requirements. Written charters establish duties for Board of Directors. Sub-committee examples: <ul style="list-style-type: none"> <li>• Audit committee.</li> <li>• Compensation committee.</li> <li>• Nominating committee.</li> </ul>	National Instrument 52-110, <i>Audit Committees</i>

#### RISK MANAGEMENT AND INTERNAL CONTROLS

Considerations		Resources
Related to corporate governance, you will also need a robust internal control environment that provides independent reviews of operational efficiency and financial reporting.	Managed by Board of Directors. Review of annual and interim filings. Entity-level financial reporting controls. Operational controls.	National Instrument 52-109, <i>Certification of Disclosure in Issuers' Annual and Interim Filings</i>
As a cannabis company, compliance with local regulations will be essential to maintaining licenses and should be a core component of internal control systems.	Regulatory compliance controls.	

## CONTINUOUS DISCLOSURE REQUIREMENTS

### Considerations

Upon completing the IPO/RTO, your cannabis company will be a Venture Issuer under Canadian securities regulations. As such, you will have to meet ongoing quarterly and annual disclosure and reporting requirements.

For more details see Appendix D: Continuous Disclosure Requirements

Required financial disclosures:

- Comparative annual financial statements.
- Management Discussion and Analysis (MD&A).
- Interim financial report.
- Material change report.
- Business Acquisition Report (BAR).
- Information circular.

### Resources

National Instrument 51-102, *Continuous Disclosure Obligations*

National Instrument 58-101, *Disclosure of Corporate Governance Practices*

## TAX IMPLICATIONS

### Considerations

Operating a public company places increased pressure on tax structures and reporting. As a cannabis company, there are additional tax compliance requirements related to every jurisdiction where you have operations.

Corporate tax compliance.  
State and Local tax compliance.  
Cannabis taxes:

- Sales tax
- Excise tax

280E compliance.  
Tax controversies.  
Shareholder taxes.

### Resources

National Policy 58-201, *Corporate Governance Guidelines*

National Instrument 52-110, *Audit Committees*

## INVESTOR RELATIONS

### Considerations

Becoming a public company is just the start of a long-term relationship with current and future investors. Frequent and transparent communication about your company's performance is essential to sustaining long-term interest in your company.

Maintain two-way dialog with shareholders.  
Proactive outreach to investment community.  
Articulate consistent messages organization-wide.  
Maintain up-to-date and accessible database of disclosure documents.

### Resources

Stay apprised of reporting and commentary about your company:

- Financial news/journals.
- Social media.
- Investing forums/blogs.

## APPENDICES

### APPENDIX A: LISTING REQUIREMENTS FOR THE CSE

<b>Net tangible assets or revenue</b>	N/A
<b>Minimum cash in treasury</b>	Adequate to carry out stated work plan or execute business plan for 12 months following listing.
<b>Minimum working capital</b>	C\$200,000
<b>Property</b>	Significant interest in business or primary assets used to carry on business.
<b>Prior expenditure and work program</b>	History of development of business or asset or have achieved revenue from sale of goods or the delivery of services.
<b># of public board lot holders</b>	150
<b>Minimum free trading public float</b>	500,000 shares
<b>Minimum % of issued and outstanding listed shares held by public</b>	10%
<b>Market value of issued securities to be listed</b>	No minimum.
<b>Minimum IPO price conducted concurrent to listing (1)</b>	C\$0.10

Other Requirements:

- No shares issued for less than C\$0.005 in previous 18 months.
- Fully reporting in at least one province in Canada.
- Not a blank check or inactive company.
- Freely tradable shares must be worth a minimum of C\$50,000.
- Officers, directors, related persons, and investor relations persons associated with the company must have a clean record.
- Company must not have entered into a settlement agreement with a securities regulator or other authority, known to be related to another offender, or have a consistent record of business failures.
- Agreement to comply with corporate governance requirements.
- Must have letter from market maker agreeing to act as a market maker for securities of company once approved for listing.
- Business plan projecting the activities and financial condition of the company for 12 months from application date.

Per: CSE Policy 2 - Qualification for Listing

## APPENDIX B: APPLYING FOR A CSE LISTING

To apply for a CSE listing, you'll need to complete the appropriate listing applications and pay the required fees.

Documents	Fee Schedule
<b>Form 1A - Application Letter</b>	<b>Application Fees</b> Listing fee: - C\$3,500 non-refundable deposit - C\$10,000 upon approval
<b>Form 1B - Listing Application</b>	
<b>Form 2A - Listing Statement</b>	
<b>Form 2B - Listing Summary</b>	
<b>Form 3 - Personal Information Form Part 1</b>	Form 3 Personal Information Forms: - C\$200/form
<b>Form 3 - Personal Information Form Part 2</b>	
<b>Form 4 - Listing Agreement</b>	
<b>Form 5 - Quarterly Listing Statement</b>	
<b>Form 6 - Certificate of Compliance</b>	<b>On-Going Fees</b> Monthly Fee - C\$650 Late Filing Fee - C\$25 per day per form
<b>Form 7 - Monthly Progress Report</b>	
<b>Form 8 - Notice of Prospectus Offering</b>	
<b>Form 9 - Notice of Proposed Issuance of Securities</b>	
<b>Form 10 - Notice of Proposed Transaction</b>	
<b>Form 11 - Notice of Proposed Stock Options</b>	

All forms are available at: <https://thecse.com/support/all-forms>

## APPENDIX C: CONTENTS OF PROSPECTUS/INFORMATION CIRCULAR

Prospectus	Information Circular
<p><b>Non-Financial Information</b></p> <ul style="list-style-type: none"> <li>- Corporate Structure</li> <li>- Business Description</li> <li>- Use of Proceeds</li> <li>- Dividends/Distributions</li> <li>- Management Discussions and Analysis (MD&amp;A)</li> <li>- Earnings Coverage Ratio</li> <li>- Details of the Offering</li> <li>- Consolidated Capitalization</li> <li>- Options to Purchase Securities</li> <li>- Prior Sales</li> <li>- Escrowed Securities</li> <li>- Principal Shareholders and Selling Security Holders</li> <li>- Directors and Executive Officers</li> <li>- Executive Compensation</li> <li>- Indebtedness of Directors and Executive Officers</li> <li>- Audit Committees and Corporate Governance</li> <li>- Plan of Distribution</li> <li>- Risk Factors</li> <li>- Promoters</li> <li>- Legal Proceedings and Regulatory Actions</li> <li>- Interest of Management and Others in Material Transactions</li> <li>- Auditors, Transfer Agents and Registrars</li> <li>- Material Contracts</li> <li>- Experts</li> <li>- Other Material Facts</li> <li>- Rights of Withdrawal and Rescission</li> <li>- List of Exemptions from Instrument NI-41-101</li> </ul> <p><b>Financial Information</b></p> <ul style="list-style-type: none"> <li>- Previously Audited Financial Statements</li> <li>- Unaudited Interim Financial Statements</li> <li>- Financial Statements of Acquired Companies</li> <li>- Pro Forma Financial Statements</li> <li>- Future-focused Financial Information</li> </ul> <p>PER: National Instrument 41-101, General Prospectus Requirements, specifies the contents of a prospectus filed at the time of an initial public offering.</p>	<p><b>Background of RTO</b></p> <ul style="list-style-type: none"> <li>- Formal Agreement</li> <li>- Reasons for RTO and Board Recommendation</li> <li>- Details of RTO</li> </ul> <p><b>Shell &amp; Private Company Information</b></p> <ul style="list-style-type: none"> <li>- Business Description</li> <li>- Selected Consolidated Financial Information</li> <li>- Directors and Officers</li> <li>- Share Capital</li> <li>- Capitalization</li> <li>- Prior Sales</li> <li>- Principal Holders of Securities</li> <li>- Rights to Purchase Securities</li> <li>- Executive Compensation</li> <li>- Risk Factors</li> <li>- Indebtedness of Directors and Executive Officers</li> <li>- Interest of Management and Others in Material Transactions</li> <li>- Material Contracts</li> <li>- Auditors</li> <li>- Legal Proceedings and Regulatory Actions</li> <li>- Dividend Record and Policy</li> <li>- Auditors, Registrar and Transfer Agent</li> <li>- Audit Committee</li> </ul> <p><b>Information Concerning Resulting Issuer</b></p> <ul style="list-style-type: none"> <li>- General Description</li> <li>- Available Funds and Purposes for Funds</li> <li>- Business of Resulting Issuer</li> <li>- Share and Loan Capital of Resulting Issuer</li> <li>- Principal Shareholders</li> <li>- Public and Insider Ownership</li> <li>- Rights to Purchase Securities</li> <li>- Dividend Record</li> <li>- Auditors, Registrar and Transfer Agent</li> <li>- Pro Forma Financial Information</li> <li>- Risk Factors</li> </ul> <p><b>Matters to Be Acted Upon</b></p> <ul style="list-style-type: none"> <li>- Approval of Share Consolidation and Increase in Authorized Capital</li> <li>- Approval of Name Change</li> <li>- Approval of Stock Option Plan</li> <li>- Adoption of New Articles and Removal of Pre-Existing Company Provisions</li> </ul>

## APPENDIX D: CONTINUOUS DISCLOSURE REQUIREMENTS

As a venture issuer under Canadian securities legislation, you will be responsible for meeting detailed reporting and disclosure obligations. The details can be found in National Instrument 51-102, *Continuous Disclosure Obligations*, which prescribes continuous disclosure requirements, and will include, but is not limited to, the following:

<b>Comparative Annual Financial Statements</b>	Must be filed within 120 days of the fiscal year's end, in compliance with Canadian GAAP standards.
<b>Management Discussion and Analysis (MD&amp;A)</b>	
<b>Interim Financial Report</b>	Filed within 60 days of the end of the interim period. If your auditor has not performed a review, you may submit a notice indicating so.
<b>Material Change Report</b>	Any time there is a significant change in your business, operations, or finances that will have an impact on the value of securities, you must immediately issue a press release describing the change, and a report must be filed with the securities regulator.
<b>Business Acquisition Report (BAR)</b>	File a BAR within 75 days of completing a major acquisition. The BAR will describe the business acquired, the expected impact on your company, and provide audited financial statements and interim reports of the acquired company.
<b>Information Circular</b>	You will issue an information circular for every shareholder meeting, and the document will also be filed with securities regulators.



## ABOUT US

### MGO | ELLO

The MGO | ELLO National Cannabis Alliance delivers world-class accounting, tax, audit and advisory services for the cannabis industry. Through collaborative professional services offerings, we provide financial and operational solutions that instill transparency, responsibility and legitimacy. We support cannabis enterprises, investors and government agencies as they navigate the complex dynamics of the emerging cannabis marketplace.

**Learn more: [mgocpa.com](http://mgocpa.com) | [elloinsights.com](http://elloinsights.com)**

STRATEGIC ALLIANCE



PROFESSIONAL SERVICES FOR  
THE CANNABIS INDUSTRY