CANNABIS COMPANY
GUIDE TO THE
U.S. AND CANADIAN MARKETS

OPPORTUNITIES FOR CANNABIS COMPANIES
IN THE U.S. AND CANADIAN MARKETPLACE

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Cannabis Company Guide to the U.S. and Canadian Markets

**OPPORTUNITIES FOR CANNABIS COMPANIES IN THE U.S. AND CANADIAN MARKETPLACE**

**Dorsey & Whitney LLP** is an international law firm with offices throughout the United States, Canada, Europe and Asia with expertise assisting U.S. based cannabis companies with accessing the Canadian securities markets. Dorsey provides U.S. legal advice in Canada.

**ABOUT THE AUTHORS**

**Chris Barry** is Of Counsel in Dorsey’s Seattle office, head of the firm’s Canada cross-border practice group and co-chair of the firm’s Cannabis Practice Group. Mr. Barry is ranked by Chambers U.S.A. as a leading corporate finance attorney. Chris represents Cannabis companies and their advisors on variety of U.S. legal matters, including capital markets transactions, mergers and acquisitions, corporate matters, regulatory and licensing, compliance and other related issues. Mr. Barry can be contacted at 206-903-8815 or barry.chris@dorsey.com.

**Kenneth Sam** is a Partner in Dorsey’s Denver office and a member of the firm’s Canada cross-border practice group. Mr. Sam is recognized by Chambers U.S.A. as a leading corporate attorney. He represents companies, underwriters, agents and investors on U.S. legal matters, including SEC reporting, mergers and acquisitions, takeover defense and other related issues. Mr. Sam can be contacted at 303-629-3445 or sam.kenneth@dorsey.com.

**John Hollinrake** is a Partner in Dorsey’s Seattle office and a member of the firm’s Canada cross-border practice group. Mr. Hollinrake is ranked by Chambers U.S.A. as a leading tax attorney. Mr. Hollinrake assists clients with U.S. tax compliance, cross-border tax structuring and planning and other related issues. Mr. Hollinrake can be contacted at 206-903-8812 or hollinrake.john@dorsey.com.

**Sarah Robertson** is a Partner in Dorsey’s New York office and a member of the firm’s Trademark, Copyright, Advertising & Brand Management Group. She joined Dorsey after practicing in Canada and is ranked by World Trademark Review as one of the world’s leading trademark professionals. She helps companies extract the most value from their intellectual property assets and build strong brands from inception. She can be contacted at 212-735-0788 or robertson.sarah@dorsey.com.
# Cannabis Company Guide
## U.S. and Canadian Markets

**OPPORTUNITIES FOR CANNABIS COMPANIES IN THE U.S. AND CANADIAN MARKETPLACE**

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This guide is intended to provide general information for Cannabis companies with respect to the U.S. and Canadian markets and is not intended to provide definitive legal or tax advice. No legal, tax or business decisions should be based solely on its content. None of Dorsey & Whitney LLP or any of its affiliates guarantees the completeness of the information contained in this Guide and we are not responsible for any errors or omissions in, or your use of, or reliance on, the information contained in this Guide.
INTRODUCTION

The cannabis industry is a fast growing, emerging industry in the United States and Canada. Legalization of cannabis for medical and recreational use in a number of states in the United States and in Canada has presented a variety of opportunities and legal challenges for pioneering companies that are creating a multi-billion dollar industry. This guide summarizes some key considerations under United States laws and regulations for cannabis companies doing business in the United States and Canada.

CANNABIS INDUSTRY SECTORS

The Cannabis Industry can be segmented into three general sectors.

Medical Cannabis Market: Cannabis is used for medicinal purposes and has proven to be an effective treatment for pain relief, inflammation and a number of other medical disorders. Doctors may prescribe ‘legalized’ medical cannabis in approved states where patients can receive a “recommendation” from a state-approved, licensed physician for the treatment of certain conditions specified by the state. Medical cannabis is being used to treat severe or chronic pain, inflammation, nausea and vomiting, neurologic symptoms (including muscle spasticity), glaucoma, cancer, multiple sclerosis, post-traumatic stress disorder, anorexia, arthritis, Alzheimer’s, Crohn’s disease, fibromyalgia, ADD, ADHD, Tourette’s syndrome, spinal cord injury and numerous other conditions. Cannabis oil has also been proven effective in treating epileptic seizures in children.

Recreational Cannabis Market: In 2012 through voter approved initiatives, Colorado and Washington state legalized cannabis for recreational use. These history-changing initiatives and subsequent state legislation created a window of opportunity for the commercialization and state taxation of a plant group that has, until recently, been virtually untouchable and has set the wheels in motion for other states to follow. Since then seven more states and Washington, D.C. have legalized recreational cannabis – Alaska, California, Maine, Massachusetts, Nevada, Oregon and Vermont. In January of 2018, California issued permits to further legalization of recreational cannabis in potentially the largest market for cannabis.

Ancillary Cannabis-Related Businesses: As more states enact cannabis legislation, the demand for cannabis-related products and services grows. The rapid expansion of the cannabis market combined with more sophisticated management teams and business models entering the market has spurred the development of numerous cannabis-related niche markets. These ancillary markets that do not physically “touch the plant” include infrastructure and support for the cannabis industry in such areas as social media, security, consulting, delivery systems, financial services, software & high-tech, electronic hardware, infused products, extracts & oils, hemp production, ancillary cultivation solutions, and retail.
CANNABIS REGULATORY ENVIRONMENT

U.S. Regulatory Environment

Cannabis is regulated at both the Federal and State levels in the United States.

Federal Regulation and Enforcement

The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811), which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The Department of Justice defines Schedule 1 controlled substances as “the most dangerous drugs of all the drug schedules with potentially severe psychological or physical dependence.”

The United States Federal Drug Administration has not approved the sale of marijuana for any medical application.

State laws regulating Cannabis (described below) are in direct conflict with the federal Controlled Substances Act, which makes cannabis use and possession federally illegal.

**Ogden and Cole Memos:** Beginning in 2009, the U.S. Department of Justice (“DOJ”) issued a series of memorandum providing that where states and local governments enact laws authorizing cannabis-related use, and implement strong and effective regulatory and enforcement systems, the federal government will rely upon states and local enforcement agencies to address cannabis activity through the enforcement of their own state and local narcotics laws. On October 19, 2009, United States Deputy Attorney General David W. Ogden issued a memorandum (the "Ogden Memo"), which provided the following clarification and guidance in states that have enacted laws authorizing the medical use of cannabis, "Rather than developing different guidelines for every possible variant of state and local law, this memorandum provides uniform guidance to focus federal investigations and prosecutions in these states on core federal enforcement priorities." On August 29, 2013, United States Deputy Attorney General James Cole (the "Cole Memo") issued the most notable memorandum on cannabis enforcement priorities to United States Attorneys guiding them to prioritize enforcement of Federal law away from the cannabis industry operating as permitted under certain state laws, so long as,

- cannabis is not being distributed to minors and dispensaries are not located around schools and public buildings;
- the proceeds from sales are not going to gangs, cartels or criminal enterprises;
- cannabis grown in states where it is legal is not being diverted to other states;
- cannabis-related businesses are not being used as a cover for sales of other illegal drugs or illegal activity;
- there is not any violence or use of fire-arms in the cultivation and sale of marijuana;
- there is strict enforcement of drugged-driving laws and adequate prevention of adverse health consequences; and
- cannabis is not grown, used, or possessed on Federal properties.
Many engaged in the cannabis business took comfort from the Ogden Memo and the Cole Memo stated
enforcement priorities. However, the Ogden Memo and the Cole Memo were meant only as guidance for United
States Attorneys and did not alter in any way the Department of Justice’s authority to enforce Federal law,
including Federal laws relating to cannabis, regardless of state law.

**Recession of Ogden and Cole Memos:** On January 4, 2018, U.S. Attorney General Jeff Sessions (“Sessions”) issued
a memorandum (the “Sessions Memo”) that expressly rescinded previous DOJ guidance on cannabis
enforcement priorities, including the Ogden Memo and the Cole Memo. The Sessions Memo is three short
paragraphs:

In the Controlled Substances Act, Congress has generally prohibited the cultivation, distribution, and
possession of marijuana. 21 U.S.C. § 801 et seq. It has established significant penalties for these crimes,
21 U.S.C. § 841 et seq. These activities also may serve as the basis for prosecution of other crimes, such
as those prohibited by the money laundering statutes, the unlicensed money transmitter statute, and
determination that marijuana is a dangerous drug and that marijuana is a serious crime.

In deciding which marijuana activities to prosecute under these laws with Department’s finite resources,
prosecutors should follow the well-established principles that govern all federal prosecutions. Attorney
General Benjamin Civiletti originally set forth these principles in 1980, and they have been refined over
time, as reflected in chapter 9-27.000 of the U.S. Attorneys’ Manual. These principles require federal
prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law
enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of
criminal prosecution, and the cumulative impact of particular crimes on the community.

Given the Department’s well-established general principles, previous nationwide guidance specific to
marijuana enforcement is unnecessary and is rescinded, effective immediately. [footnote added specific
to the Ogden Memo and Cole Memo] This memorandum is intended solely as a guide to the exercise of
investigative and prosecutorial discretion in accordance with all applicable laws, regulations, and
appropriations. It is not intended to, does not, and may not be relied upon to create any rights,
substantive or procedural, enforceable at law by any party in any matter civil or criminal.

Prior to his appointment by President Donald Trump to head DOJ, Sessions voiced a strong opposition to state
marijuana laws that he believes directly contravene the federal Controlled Substances Act. Accordingly, the
Sessions Memo may significantly increase enforcement risk for cannabis companies in the United States and
those engaged in businesses that support the cannabis industry.
State Regulation and Enforcement

Cannabis companies operating in the United States rely heavily on state-specific regulations. Cannabis law at the state level has been a rapidly changing area over the last several years and likely will continue to be a frequently changing area of law in the coming years.

As of November 4, 2018, there are 33 states and Washington D.C. that have legalized medical marijuana, and 9 jurisdictions have gone on to legalize recreational use of marijuana, including Colorado, Washington, Alaska, Oregon, the District of Columbia, Nevada, Massachusetts, Maine, California and Vermont. In the November 6, 2018 elections, Michigan became the 10th state to legalize recreational use of marijuana (by voter initiative) and Missouri and conservative Utah voted to legalize medical marijuana. While a voter initiative in North Dakota failed. There are numerous states that have indicated interest in putting recreational use of marijuana to a vote in future ballot measures.

State regulatory requirements vary enormously from state-to-state, and business structures and practices developed for compliance in one state frequently will violate the laws and regulatory policies of other states.

Although the trend in some states has been a process of liberalization (e.g., Colorado has slowly relaxed some of its geographic prohibitions related to investment in or ownership of cannabis companies), new regulations often take months or longer to come out, so what may be prohibited now could quickly become permissible as states issue new regulations to better balance the need of serving the industry and addressing valid public safety and other concerns.

Licensed cannabis businesses in Colorado and Washington, for example, cannot be publicly traded companies, nor can they have public traded owners. A variety of structures have been developed to allow investors to participate in financing the industry in these states without owning an equity interest in a cannabis business.

In other jurisdictions, such as California, Nevada, Oregon and others, do not restrict foreign ownership of licensed cannabis businesses or ownership by public companies, but applicable county or city regulation may limit or forbid foreign ownership.

See, https://www.dorsey.com/services/cannabis
CANNABIS BANKING REGULATIONS

U.S. Banking Regulation

Since the use of cannabis is illegal under federal law, Cannabis companies may have difficulty acquiring or maintaining bank accounts in the United States. The Financial Crimes Enforcement Network ("FinCEN") provided guidance on February 14, 2014 about how financial institutions can provide services to cannabis-related businesses consistent with their Bank Secrecy Act obligations ("BSA"). In general, the decision to open, close, or refuse any particular account or relationship should be made by each financial institution based on a number of factors specific to that institution. These factors may include its particular business objectives, an evaluation of the risks associated with offering a particular product or service, and its capacity to manage those risks effectively. Thorough customer due diligence is a critical aspect of making this assessment.

On February 14, 2014, FinCEN issued guidance under the BSA relating to FinCEN’s and the FDIC’s expectations regarding BSA compliance for cannabis-related businesses. The FinCEN guidance was issued in light of recent state initiatives to legalize certain cannabis-related activity and the related guidance by the DOJ outlined in the Ogden Memo and the Cole Memo.

The FinCEN guidance clarifies how banks can offer services to cannabis-related businesses consistent with their BSA reporting obligations by filing suspicious activity reports ("SARs") and provides three categories of SAR filings for cannabis-related business: "marijuana limited," "marijuana priority," and "marijuana termination." If a financial institution provides financial services to a cannabis-related business that it reasonably believes, based on its customer due diligence review, does not implicate one of the Cole Memo priorities or violate state law, it should file a "marijuana limited" SAR. Since the eight priorities of the Cole Memo principally deal with the illegal cultivation and distribution of cannabis and we do not engage in these activities, we anticipate that financial institutions providing financial services to us will file, if deemed required, "marijuana limited" SARs relating to our activities. In addition to our compliance with state laws and regulations, we will seek to meet FinCEN’s guidance to the extent that it indirectly affects our business, through our systems, procedures, and protocols to review customer licensing and identification procedures of customers and retail customers.

FinCEN guidance expanded on the "know your customer" guidelines and clarified how financial institutions can provide services to cannabis-related businesses consistent with their BSA obligations and stated:

In assessing the risk of providing services to a marijuana-related business, a financial institution should conduct customer due diligence that includes: (i) verifying with the appropriate state authorities whether the business is duly licensed and registered; (ii) reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business; (iii) requesting from state licensing and enforcement authorities available information about the business and related parties; (iv) developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of customers to be served (e.g., medical versus recreational customers); (v) ongoing monitoring of publicly available sources for adverse information about the business and related parties; (vi) ongoing monitoring for suspicious activity, including for any of the red flags described in this guidance; and (vii) refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk. With respect to information regarding state licensure obtained in connection with
such customer due diligence, a financial institution may reasonably rely on the accuracy of information provided by state licensing authorities, where states make such information available.

As a practical matter, prospective investors in or acquirors of a business in the cannabis industry would be well advised to conduct thorough due diligence of the businesses financial service providers. It should be verified that the providers understand the business and are comfortable with providing the services necessary to implement the business plan. In particular, some institutions that are willing to “bank” intrastate cannabis businesses have been reluctant to engage in interstate or international transactions and fund transfers.

**CANNABIS TAXATION**

**U.S. Taxation**

In states that have decriminalize cannabis through voter initiatives or legislative processes, states have adopted legislation to tax cannabis through sales, excise or producer tax structures. Each state has used differing taxation structures.

Even though cannabis is illegal, enterprises engaged in the cannabis industry are still subject to federal taxation in the United States. Under the U.S. Internal Revenue Code, 26 U.S.C. § 280E, cannabis businesses are subject to significantly higher income tax burden relative to other types of businesses by eliminating business expenses deductions for those selling drugs on Schedules I and II of the Controlled Substances Act.

Some cannabis business, if held through a non-U.S. company, may constitute a “passive foreign investment company” as defined in the U.S. Internal Revenue Code, 26 U.S.C. § 1297. For example, a non-U.S. companies which holds royalty interests or minority interests in other entities may constitute a passive foreign investment company.

You should consult legal and tax advisors for the applicable tax requirements in each jurisdiction.

**BRAND AND INTELLECTUAL PROPERTY PROTECTION**

**Branding and Intellectual Property Protections**

The direct conflict that exists between the federal Controlled Substances Act, which makes cannabis use and possession federally illegal, and state laws regulating cannabis (as described above), has created an uncertain legal environment for the protection and enforcement of cannabis brand names in the U.S.

At the federal level, the U.S. Patent and Trademark Office (USPTO) can refuse to register a trademark for cannabis or related products and services that violate the Controlled Substances Act, on the basis that this violates the USPTO's rule that trademarks must be in “lawful use in commerce.” The lawful use requirement is rooted in Sections 1 and 45 of the Lanham (Trademark) Act, 15 U.S.C. §§ 1051, 1127.
Even where an applicant uses a broad identification of goods or services so as not to mention cannabis specifically as the subject of such goods or services, or relies on foreign registration rights, where no proof of use of the mark would be required, the USPTO may still refuse the application as covering goods or services that are illegal under federal law. This is because examiners often look more closely into an applicant’s background, they examine an applicant’s website, or they ask questions to have an applicant admit whether its goods or services relate to cannabis. Cannabis brand owners can seek to obtain federal registration protection for ancillary goods or services that do not have cannabis as their focus, such as clothing or food, although these types of filings would be subject to the same level of USPTO scrutiny.

Despite a trademark owner’s inability to register at the federal level for goods or services that are prohibited under the Controlled Substances Act, registration for cannabis brands is available at the state level in those states where cannabis is legal. For example, in California, which has a multibillion dollar cannabis industry, a bill is before the California state legislature which would add two new classes for cannabis to its trademark filing system: Class 500, which would be for goods that are cannabis or cannabis products (including medicinal cannabis), and Class 501 which would be for services related to cannabis or cannabis products (including medicinal cannabis). The bill passed the lower house, but requires approval at the senate level and is currently tabled until 2018. State trademark registrations can confer certain advantages, such as the ability to claim statewide protection for a trademark and allowing registrants to seek remedies similar to those available under the federal Lanham Act. However, they do not confer a number of important legal presumptions and benefits that arise only from federal registration, such as presumption of validity of the trademark, use of the registration symbol, and subject matter jurisdiction in the federal courts. Further, unlike the federal trademark regime, which allows for intent-to-use applications to carve out constructive rights to a mark before it is used, most states require actual use of a mark before a trademark application can be filed.

Finally, brand owners can also rely on common law (i.e., unregistered) rights to gain trademark protection, which automatically arise upon the commercialization of a brand. Common law rights are only established in the geographic areas in which a trademark is used.

On the trademark enforcement side, the majority of high-profile trademark infringement claims have been brought by owners of non-cannabis brands. This is based on the long-standing practice of cannabis producers of borrowing from brands from pop culture to name cannabis strains, such as Candyland or AC/DC. Now that cannabis producers are shifting towards legal and more commercially-visible sales, their products are catching the eye of the owners of the well-known brands that they have adopted. Gorilla Glue Co., a long-established liquid adhesive company, filed a federal trademark infringement suit against GG Strains LLC based on its use of the GORILLA GLUE name to brand its sticky cannabis buds. GG Strains claims there is no likelihood of confusion between glue products and cannabis.

Despite the uncertain status of registration and enforcement of brands, a comprehensive trademark clearance search is still advisable. This is because it will be important for a business to know whether its proposed mark has been used on a common law basis or is the subject of a state or federal trademark registration.
U.S. BORDER CONTROL AND IMMIGRATION

For purposes of U.S. immigration and nationality law, cannabis is classified as a Schedule I substance under the U.S. Controlled Substances Act. Accordingly, Canadians and other non-citizens seeking admission to the U.S. must be aware that engaging in cannabis-related activities, even if they are lawful under U.S. state and/or Canadian laws, may present issues at the U.S. port of entry and result in a finding of inadmissibility by the U.S. Customs and Border Protection (“USCBP”) officer. If such a finding is made, a person will be denied entry or subject to a ban from entering the United States. These USCBP restrictions do not apply to U.S. citizens,

According to guidance issued by USCBP (October 9, 2018):

Generally, any arriving alien who is determined to be a drug abuser or addict, or who is convicted of, admits having committed, or admits committing, acts which constitute the essential elements of a violation of (or an attempt or conspiracy to violate) any law or regulation of a State, the United States, or a foreign country relating to a controlled substance, is inadmissible to the United States.

A Canadian citizen working in or facilitating the proliferation of the legal marijuana industry in Canada, coming to the U.S. for reasons unrelated to the marijuana industry will generally be admissible to the U.S. however, if a traveler is found to be coming to the U.S. for reason related to the marijuana industry, they may be deemed inadmissible.

Because engaging in cannabis-related activities may have significant U.S. immigration consequences, non-citizens involved in licensed cannabis businesses as shareholders, officers or employees may want to seek the advice of counsel prior to travelling to the U.S. or seeking other U.S. immigration benefits.
**Capital Markets and Access to Capital**

Canada and the United States provide access to investment capital in both the private and public equity markets. A Cannabis company will need to determine whether to raise capital as a private company or in the public markets.

**Raising Capital as a Private Company**

**U.S. Securities Act Requirements**

In the United States, the Securities Act of 1933, as amended (the “U.S. Securities Act”), regulates the distribution of securities to the public, directly or indirectly, by the issuer and/or its affiliates. All sales of securities by any person whatsoever in the United States require “registration” under the U.S. Securities Act and applicable state securities laws, unless exemptions from such registration requirements are available. Almost all capital raised in the U.S. is raised through offers and sales of securities on an unregistered basis pursuant to exemptions from the registration requirements of the U.S. Securities Act and state securities laws. The most common exemptions are as follows:

- **Securities Act § 4(a)(2)** exempts transactions by an issuer “not involving a public offering.”
- **Rule 506 of Regulation D under the U.S. Securities Act** provides a safe harbor from the registration requirements of the U.S. Securities Act and state securities laws for offers and sales of securities that meet specified requirements under the rule.
- **Regulation S under the U.S. Securities Act** creates “safe harbors” for transactions that take place “outside the United States.” This is the primary exemption from U.S. Securities Act registration for offers and sales of securities in Canada.
- **Regulation A under the U.S. Securities Act** creates a “safe harbor” for transactions that meet the requirements, including offers and sales to the public.
- **Rule 144A under the U.S. Securities Act** exempts offers and sales to Qualified Institutional Buyers (QIB)\(^1\).

All offers and sales of securities that have not been registered under the U.S. Securities Act should be evaluated for available exemptions from registration requirements.

**U.S. Investment Company Act**

Business that make minority investments in or loans to cannabis businesses should consider whether the U.S. Investment Company Act of 1940, as amended, will apply to their activities. The Investment Company Act also

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\(^1\) Qualified Institutional Buyers (QIB) - Generally, institutions holding at least US$100 million in securities and registered broker-dealers holding at least US$10 million in securities.
may apply to a business model that contemplates other types of investment arrangements, such as royalties, with entities of which the investor is not the majority owner. Registration and compliance with the Investment Company Act can be difficult for smaller companies.

**Going Public in Canada for U.S. Companies**

Companies in the United States often struggle to find liquidity for their shareholders or access to needed capital. There are many reasons that Cannabis companies are unable or unwilling to access the public capital markets in the United States, including, among others:

- Lack of size necessary to list on a National Exchange in the United States. U.S. capital markets cater to large companies.
- The amount of capital needed is too small to attract the interest of investment banks.
- U.S. capital markets are too crowded to have success as a public company.
- Options for public market quotations for smaller companies in the U.S. often lump good companies with micro-cap fraudulent schemes.
- U.S. capital markets are too highly regulated and accounting and compliance costs related to U.S. securities laws, including the Sarbanes-Oxley Act of 2002\(^2\) (Sarbanes-Oxley), are prohibitively expensive.
- Registration with the United States Securities and Exchange Commission (SEC) takes several months and the U.S. regulatory and reporting system is overly complicated and bureaucratic.
- Affiliates of U.S. listed companies are subject to increased liability and regulation.
- The business of the company has uncertain legal standing in the United States. This is true of many companies in the cannabis industry.

The pressures from outside investors, management and employees to obtain liquidity cause many companies in the U.S. to look to the North in Canada to access one of the world's largest public markets for smaller companies. Canada provides smaller emerging companies with access to capital and liquidity for shareholders. Canada is unique in that its public markets and regulatory regime accommodate and promote smaller, emerging companies listings. With legalization of Cannabis in Canada in the near future, Canada may provide a more liberal political environment for Cannabis related companies.

Canada has evolved into the premier jurisdiction for public companies in the cannabis industry with the federal legalization and regulation of cannabis in Canada. A capital markets eco-system has developed in Canada (Canadian Cannabis Ecosystem) that consists of high profile companies, investment banks, institutional investors, investor relations professionals, accounting professionals, legal professionals and securities exchanges. The Canadian Cannabis Ecosystem provides an environment conducive for capital raising and an orderly public market for securities of cannabis companies. Several companies with U.S. cannabis operations

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have listed on the Canadian Securities Exchange (CSE), which has emerged as the premier public market for cannabis companies with U.S. operations.

Recent changes to U.S. securities laws and regulations make Canada a viable option for U.S. companies to access a regulated public market for its securities and source for needed capital. The Canadian securities markets can provide a platform for companies to list securities in Canada and to provide liquidity to shareholders and access to needed capital.

This section of the Guide is intended to provide general information related to planning a listing in Canada. There is no single structure or method for going public in Canada and you should consider legal, tax and business considerations in making a decision to list in Canada. The CSE is currently the only exchange that will permit the listing of a Cannabis company doing business in the United States. Accordingly, this section discusses the considerations for a listing on the CSE.

**Canadian Securities Administration Requirements**

On February 8, 2018, the Canadian Securities Administrators (the “CSA”) revised Staff Notice 51-352 – Issuers with U.S. Marijuana-Related Activities (“Revised 51-352”), in response to the Sessions Memo. The CSA, like the SEC, takes a disclosure based approach for public company reporting and disclosure requirements. Revised 51-352 sets out disclosure based requirements for issuers with marijuana-related activities in the United States, as opposed to prohibiting such issuers from raising funds in Canada or listing on a Canadian stock exchange. Issuers will continue to be able to raise funds and list in Canada, as long as risks (related to the fact that their operations may be illegal under United States federal law and that they may face prosecution at any time) are adequately disclosed.

Revised 51-352 applies to prospectus filings and continuous disclosure documents such as an annual information form (AIF) and management’s discussion and analysis (MD&A). Revised 51-352 requires that any prospectus contain “bold boxed cover page disclosure” of the illegal nature of marijuana under U.S. federal law and the potential risks associated with this circumstance (e.g., We operate in violation of United States federal law regarding marijuana and may be subject to prosecution at any time. Any such prosecution may have a material adverse effect on our operations and financial results). In addition, AIFs, MD&A and other disclosure documents are required to contain (at minimum):

- prominent statements that marijuana is illegal under U.S. federal law and that enforcement of such laws is a significant risk for the issuer;
- descriptions of statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction in which the issuer conducts U.S. marijuana-related activities;
- disclosure to “quantify the issuer’s balance sheet and operating statement exposure to U.S. marijuana-related activities”; and
• disclosure if legal advice “has not been obtained”, either in the form of a legal opinion or otherwise, regarding compliance with applicable state regulatory frameworks and potential exposure and implications arising from U.S. federal law.

Issuers that have direct involvement in cultivation or distribution of marijuana in the United States are required to provide a “positive statement” to the effect that the issuer is in compliance with U.S. state law and the related licensing framework. Issuers that have indirect involvement in cultivation or distribution of marijuana in the United States are required to promptly disclose any non-compliance citations or notices of violations, of which the issuer is aware, that may have an impact on the license, business activities or operations of the investee business.

You should consult your Canadian legal advisor for information related to your Canadian disclosure requirements and compliance with Canadian law.

**Securities Clearance**

**CDS Clearance:** The Canadian Depository for Securities Ltd. (“CDS”) is the clearing house which processes all Canadian equity trades. CDS is owned by the TMX Group, which owns and operates the Toronto Stock Exchange and the TSX Venture Exchange. TSX Staff Notice 2017-0009 and the equivalent TSXV Notice to Issuers effectively banned issuers engaged in cannabis activities in the United States from listing on the Toronto Stock Exchange and the TSX Venture Exchange and provided notice to issuers already listed that they faced the possibility of delisting. In August 2017, the TMX Group also announced that CDS was examining its policies related to clearing securities of issuers with cannabis activities in the United States. On February 8, 2018, the CSA issued a press release stating that “CDS will continue to clear the securities of issuers with U.S. marijuana-related activities.”

**U.S. Clearance:** Recently, in reaction to the Sessions Memo, several major U.S. securities clearing companies that provide clearing, custody and settlement services in the United States (including BNY Mellon’s Pershing) have terminated providing clearing services to issuers in the cannabis industry, including those that operate entirely outside the United States. Although The Depositary Trust Company (“DTC”) is the primary depository for securities in the United States, securities clearing companies play an important role in processing securities for deposit in the DTC system and for settlement of transactions and trades in securities for U.S. securityholders. As a result of the U.S. securities clearing companies’ and other market participants’ decisions to stop processing transactions of securities for issuers in the cannabis industry, U.S. securityholders may be unable to deposit their securities in the DTC system or to resell their securities in open market transactions, including transactions facilitated through the CSE. Many larger U.S. broker-dealers own U.S. securities clearing companies that self-clear transactions. U.S. securityholders are advised to contact their broker-dealer for additional information on clearing transactions of securities for issuers in the cannabis industry.
JURISDICTION OF INCORPORATION

Corporate structure and jurisdiction of formation are important considerations for a U.S.-based company that is considering going public in Canada. Early planning can maximize a company’s valuation, minimize regulatory compliance costs and offer an efficient capital-raising structure in the future.

U.S. incorporated companies may elect to list directly on Canadian Securities Exchange without changing their jurisdiction of incorporation. However, many U.S. incorporated companies decide to reincorporate in Canada or another non-U.S. jurisdiction prior to going public. With careful planning and under certain circumstances, the reincorporated company may qualify as a “Foreign Private Issuer” (see, “Foreign Private Issuer vs. U.S. Domestic Issuer” below) under the rules of the Securities and Exchange Commission (SEC). Being a Foreign Private Issuer provides certain exemptions and accommodations from the stricter reporting and compliance requirements and rules applicable to U.S. domestic companies.

While the CSE does not require listed companies to be incorporated in Canada, a company should consider if its existing articles of incorporation and by-laws are sufficient to ensure they meet the requirements for public companies, including protection of shareholder rights. A company may also need to form certain committees and adopt committee charters common for public companies, including an audit committee charter, a compensation committee charter, a corporate governance charter, a code of ethics, etc.

There may be good reasons for a U.S. company that is incorporated in a U.S. jurisdiction to go public in Canada and list on the CSE without changing its jurisdiction of incorporation. Typically these considerations center on the company's ability to otherwise qualify as a Foreign Private Issuer (as described below). If the company has a majority of its assets in the U.S., is principally governed in the U.S., or a majority of its voting shares (by voting power or in number) are held by shareholders resident in the U.S., the cost (tax, legal and otherwise) and complication of restructuring the company to qualify as a Foreign Private Issuer may be prohibitive. In other situations, the company may have substantial U.S. government contracts or other regulatory concerns that would complicate the process of becoming incorporated in a foreign jurisdiction.

In other circumstances, reincorporating into a foreign jurisdiction and qualifying as a Foreign Private Issuer may have significant advantages including more favorable tax planning, business and operational considerations, favorable exemptions under U.S. securities laws, single jurisdiction financial reporting, shareholder base considerations, and future fundraising and M&A considerations.

FOREIGN PRIVATE ISSUER VS. U.S. DOMESTIC ISSUER

A primary reason to become a Foreign Private Issuer is to go public without an SEC registration and the application of Sarbanes Oxley. This can be especially important for small cap public companies wanting to reduce the time and cost of compliance. While companies listed on the CSE may not be subject to Sarbanes Oxley (particularly SOX 404), Canadian issuers are still required to comply with corporate governance requirements proportionate to company size.
A Foreign Private Issuer is an entity that is incorporated outside the United States and either:

- as of its most recently completed second fiscal quarter, a majority of its voting stock was beneficially held by persons resident outside the United States; or
- none of the following exist:
  - the business is principally administered in the United States,
  - a majority of the issuer's assets are in the United States, or
  - a majority of the directors or executive officers are United States citizens or residents.

Consequently, even foreign incorporated companies may not qualify as a Foreign Private Issuer if a majority of its voting stock is beneficially held in the U.S. and the company has a significant nexus to the United States, as determined above. Companies that do not qualify as Foreign Private Issuers are treated as “U.S. Domestic Issuers” by the SEC and are required to comply with all rules and regulations applicable to U.S. companies.

In some circumstances, even foreign incorporated companies may not qualify as a Foreign Private Issuer if a majority of its voting stock is held in the U.S. and the company has a significant nexus to the U.S. Companies that do not qualify as Foreign Private Issuers are treated as U.S. Domestic Issuers by the SEC.

The U.S. securities laws and rules of the SEC provide several accommodations to Foreign Private Issuers, including:

- Ability to issue unrestricted “free trading” securities in off-shore transactions outside the United States without SEC registration under Regulation S of U.S. Securities Act (Regulation S)
- Exemption from reporting obligations under the U.S. Exchange Act in accordance with Rule 12g3-2(b) and requirements of Sarbanes Oxley
- Simplified resale of “restricted securities” by U.S. investors through the facilities of the CSE under Regulation S
- Availability of special forms for SEC registration and reporting
- Qualified Canadian corporations may use the Multi-Jurisdictional Disclosure System (MJDS), which simplifies public offerings of securities into the United States
- Foreign Private Issuers reporting with the SEC can report on a simplified basis and are exempt from the United States 14A proxy rules, certain tender offer rules and Section 16 insider trading and reporting requirements

Many U.S. companies have a majority of their voting shares held by U.S. residents and a business that is principally administered in the U.S., a majority of its assets in the U.S. or a majority of its directors or executive officers are U.S. citizens or residents. These companies may still reincorporate to a foreign jurisdiction and qualify as a Foreign Private Issuer by restructuring the company's share capital to include non-voting stock or securities. The determination of a majority of voting shares held by U.S. residents is based on either voting power or quantitative number of shares. In order to facilitate the non-U.S. ownership requirements and to qualify as Foreign Private Issuer, some transactions are structured so that U.S. shareholders receive a portion of
their securities in the public foreign corporation in the form of super-voting, super-conversion preferred stock that is exchangeable into the publicly traded common shares. The preferred stock can have the same economic and voting power (on an as converted basis as the publicly traded common shares. Normally, the company would impose predetermined conditions (such as conversion restrictions) or holding periods to preserve the Foreign Private Issuer status of the company. Due to the nature of public companies, often shareholders holding less than 50% of a public company's voting securities maintain sufficient control of the entity.

Any U.S. company that considers reincorporating to qualify as a Foreign Private Issuer should analyze the U.S. tax consequences of the transaction. See “U.S. Tax Considerations” below.

When a company plans to list in the U.S. concurrently or relatively soon after listing in Canada on the CSE, the company may conclude that the effort to reincorporate outside the U.S. outweigh the benefits and may choose to remain a U.S. Domestic Issuer. It is important to weigh the pros and cons against the ability to raise capital in Canada and the company's long term growth strategy.
## CORPORATE STRUCTURE BENEFIT ANALYSIS

### U.S. Domestic Issuer

**ADVANTAGES**
- No need to reorganize
- Fewer U.S. tax implications related to reorganization
- U.S. law applies to corporate matters
- Well established corporate/SEC reporting
- U.S. shareholder familiarity with U.S. corporations
- U.S. SEC filings can serve as basis for Canadian reporting
- Ease of eventual dual listing with a U.S. exchange

**DISADVANTAGES**
- May require SEC registration or qualification under Regulation A+
- No exemptions from SEC Exchange Act registration
- All unregistered securities are subject to one year regulation's distribution compliance period
- Cannot rely on exemptions and accommodations for Foreign Private Issuers
- Sarbanes-Oxley requirements for SEC reporting issuers, including SOX 404 (requirement for internal controls and audit)

### Foreign Private Issuer (FPI)

**ADVANTAGES**
- FPI exemptions for issuance of securities outside U.S. which can equal faster market access
- FPI exemption from SEC Exchange Act reporting under 12g3-2(b)
- No Sarbanes-Oxley requirements for non-SEC reporting issuers
- Well established Canadian reporting requirements
- FPI exemptions for M&A transactions
- Possible MJDS³ availability for Canadian corporations

**DISADVANTAGES**
- Potential tax complications in reorganizing to off-shore jurisdiction
- Potential securities law complications in reorganizing to off-shore jurisdiction
- May require complicated capital structure (non-voting equity) to maintain FPI status
- Reorganizing requires shareholder approval
- Some industries may require compliance with U.S. export controls and regulation
- Requires monitoring of number of shareholders so as not to trigger SEC registration

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³ The Multi-Jurisdictional Disclosure System (MJDS) permits qualified issuers to register securities under the U.S. Exchange Act on Form 40-F and to satisfy ongoing U.S. filing requirements using Canadian disclosure materials.
SEC REGISTRATION OR QUALIFICATION

A company, whether a U.S. Domestic Issuer or a Foreign Private Issuer, can generally raise capital in a Canadian IPO offering without filing a registration statement with the SEC. The U.S. Securities Act requires that all offers and sales of securities be registered with the SEC or exempt from such registration requirements. A traditional IPO offering in the United States requires filing of a registration statement (or qualification under Regulation A+) with the SEC.

Alternatively, a company may qualify an offering under Regulation A of the U.S. Securities Act (referred to as “Regulation A+”) on Form 1-A to register the offer and sale of securities to the public with the SEC. The qualified securities may be offered and sold in the United States and outside the United States and will be unrestricted securities under U.S. securities laws.

Regulation A+ permits companies to access the capital markets and raise up to US$50 million in a 12 month period. Regulation A+ is available only to U.S. and Canadian companies that have their principal place of business in the United States or Canada. Regulation A+ creates two tiers under which an issuer can conduct exempt offerings to the public without registration under the Securities Act:

- Tier 1 consists of exempt offerings of up to $20 million in a 12-month period; and
- Tier 2 consists of exempt offerings of up to $50 million in a 12-month period.

An issuer may elect to proceed under Tier 1 or Tier 2, but offerings under Tier 2 will be subject to additional requirements.

One of the most significant aspects of Regulation A+ is that companies are not subject to the ongoing reporting requirements of the Exchange Act. However, if Tier 2 issuers do not voluntarily register under the Exchange Act, they are required to file annual reports on a new Form 1-K, semiannual updates on a new Form 1-SA and current reports on a new Form 1-U. These reports are simplified versions of Forms 10-K, 10-Q and 8-K and based on the informational requirements of Form 1-A. The reports are required to be filed via EDGAR 120 days after the fiscal year-end, in the case of Form 1-K, 90 days after the end of the second fiscal quarter, in the case of Form 1-SA, and within four business days of the relevant event, in the case of Form 1-U. Issuers must have filed all required ongoing reports under Regulation A+ during the two years immediately preceding the filing of a new offering statement (or for such shorter period that the issuer was required to file such reports) to remain eligible to conduct offerings pursuant to the rules.

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4 The SEC adopted new rules to amend existing Regulation A under the U.S. Securities Act to implement Title IV of the Jumpstart Our Business Startup (“JOBS”) Act with the goal of increasing access to the capital markets for smaller issuers.

5 Regulation A+ is not available to a company that is a reporting issuer under the Exchange Act, investment companies and “blank check” companies, as well as those offerings involving participants subject to “bad actor” disqualification. Development stage companies with a specific plan or purpose are eligible issuers.
For additional information related to Regulation A+ offerings, see, “Regulation A+ Cheat Sheet”, attached as Appendix A. Also see, Appendix B for cross-border implications based on U.S. Domestic Issuer or a Foreign Private Issuer structures.

**U.S. TAX CONSIDERATIONS WITH CSE GOING PUBLIC TRANSACTIONS**

A company, whether a U.S. Domestic Issuer or a Foreign Private Issuer, can generally raise capital by issuing shares or other securities without adverse tax consequences. However, a U.S. Domestic Issuer that elects to reincorporate into a foreign jurisdiction may subject itself and its shareholders to significant and adverse U.S. federal income tax consequences. Generally, the exchange of a U.S. corporation's securities for securities of a foreign corporation will be a taxable transaction for U.S. taxpayers. However, such tax consequences can be mitigated or avoided in some cases.

**Cross-Border Acquisition Rules of Section 367.** Under Section 367 of the U.S. Internal Revenue Code (the “Code”) a reincorporation of a U.S. corporation or partnership may trigger a taxable event for U.S. holders and potentially trigger a taxable event for the U.S. corporation or partnership. Certain exceptions may apply to avoid tax under Section 367 if a U.S. corporation is acquired by a larger Canadian company that has had an active trade or business in Canada for three years prior to the acquisition. A transaction that satisfies the requirements of Section 367 may provide tax-free “roll-over” for a U.S. corporation and its U.S. shareholders.

**The “Anti-Inversion” Rules of Section 7874.** If a U.S. corporation or partnership reincorporates in a foreign jurisdiction, or is acquired by a foreign corporation, it may trigger the “anti-inversion” rules of Section 7874 of the Code. If these rules apply, it would result in adverse tax consequences, including the loss of tax attributes or the newly reincorporated foreign corporation (or the acquiring foreign corporation) being treated by the U.S. Internal Revenue Service as a U.S. corporation. An inversion transaction is generally deemed to occur when the following three conditions are met:

1) a foreign corporation makes a “direct or indirect” acquisition of substantially all of the assets held directly or indirectly by a U.S. corporation;
2) after the acquisition, the former shareholders of the U.S. corporation own at least 60% of the acquiring foreign corporation “by reason of” their previous interest in the U.S. corporation; and
3) after the acquisition the affiliated group to which the acquiring foreign corporation belongs does not conduct “substantial business activities” in the foreign country under which the acquiring corporation was organized, when compared to the total business activities of the “expanded affiliated group.”

Where these conditions are satisfied, the taxable income of the domestic target for the year of the transaction and for the ten subsequent years attributable to corporate transfers associated with the inversion (the “inversion gain”) may not be offset by current losses or loss carryovers and the resulting tax may not be offset by credits (including foreign tax credits). Where former target shareholders own at least 80% (instead of just 60%) of the acquiring foreign corporation after the transaction (and the other two conditions are satisfied), Section 7874 goes further by simply treating the acquiring foreign corporation as a U.S. domestic corporation.
Stock offered in a public offering or private placement made in connection with the acquisition may be disregarded in determining the percentage owned by the former shareholders, if certain requirements are met. An exception to the “anti-inversion” rules exists where the acquiring corporation has a substantial trade or business in the foreign country.

**Note that California does not recognize the “Anti-Inversion” Rules of Section 7874 for California state income tax purposes, which may result in a taxable transaction for California state taxpayers and a tax deferred transaction for federal income tax purposes. California taxpayers should consult their state tax advisors in connection with any transaction structured so that the acquiring foreign corporation is treated as a U.S. domestic corporation under the Anti-Inversion Rules of Section 7874.**

**Tax-free Roll-over Structure.** Under certain circumstances, a reincorporation transaction may not satisfy the requirements of Section 367, which could result in a taxable transaction for a U.S. corporation and its U.S. shareholders. Because the exchange of a U.S. corporation’s securities for securities of a foreign corporation is frequently a taxable transaction for U.S. taxpayers the application of the “anti-inversion” rules to the successor corporation may have the effect of treating the transaction as among two U.S. corporations. This permits the transaction to be structured as a tax-free “roll-over” for the U.S. Corporation and its U.S. shareholders under the requirements of Section 368 or Section 351.

In order to facilitate the 80% or more of the stock (by vote or value) ownership requirements under Section 7874 and to qualify as a Foreign Private Issuer, some transactions are structured so that U.S. shareholders receive a portion of their securities in the surviving public foreign corporation in the form of non-voting stock that is exchangeable into voting stock upon satisfaction of predetermined conditions or holding periods. Due to the nature of public companies, often shareholders holding less than 50% of a public company’s voting securities is sufficient to maintain control of the entity.

Tax consequences to the company and its shareholders should be considered when determining the method of going public (e.g. Initial Public Offering versus a reverse merger transaction such as through a Capital Pool Company).

**Up-C Structures** – In addition to direct acquisition structures regarding U.S. limited liability companies, a business combination may be structured using an **“Up-C Structure”** to provide target company (“**Target LLC**”) U.S. taxpayer shareholders tax deferred benefits. The Up-C Structure is particularly attractive for California taxpayers, who may be subject to California taxation on anti-inversion structured transactions. Under the Up-C Structure, U.S. taxpayers (“**U.S. Holders**”) continue to hold membership interests (“**Target LLC Interests**”) in the U.S. Target LLC and the Canadian public company (“**Pubco**”) (through a U.S. management company subsidiary, “**U.S. Manageco**”) invests in U.S. Target LLC and holds Target LLC Interests. U.S. Manageco is appointed as manager of U.S. Target LLC and manages all U.S. Target LLC decisions. The US Target LLC Interests have “Redemption - Exchange Rights”, which permit the U.S. Holders to put their Holdco Interests on U.S. Holdco, which may be satisfied by U.S. Target LLC in cash or Pubco shares, at the election of the US Target LLC. In addition, some Up-C structures include a tax receivables agreement under which the US Target LLC holders and U.S. Manageco share the benefits from tax benefits arising from the exercise of the Redemption – Exchange...
Rights. Similar structures are available where the U.S. target entity is a corporation. The issuance of the Pubco shares is governed by a support agreement. In some circumstances, a limited number of principal holders of Target are issued a class of voting shares of Pubco for nominal consideration to provide voting rights at the Pubco level. Careful structuring is required to comply with securities, tax and corporate law considerations.

**On-Going Tax Filing Obligations.** If the inversion rules are triggered, and the reincorporated company or the acquiring parent is treated as a U.S. corporation, such corporation will be required to file U.S. tax returns and pay U.S. income tax on its worldwide income, regardless of source. In addition, distributions to non-U.S. shareholders would be subject to U.S. withholding tax.

**Additional Rules Concerning U.S. Investors in a Foreign Corporation.** There are additional U.S. federal income tax rules which may impact U.S. investors in certain foreign corporations. For example, if a foreign corporation does not have significant active business operations, and its primary sources of income are passive investment assets, the corporation may be considered a “passive foreign investment corporation,” (PFIC). Or, if a foreign corporation has a small group of U.S. shareholders that own at least 50% of the stock of the company, the corporation may be considered a “controlled foreign corporation” (CFC). There are significant and adverse tax consequences for U.S. investors owning shares in a PFIC or a CFC, and the corporation and its investors should consult their tax advisors regarding the PFIC and CFC rules before reincorporating into Canada or investing in a foreign corporation. Foreign corporations that are subject to the “anti-inversion” rules and are treated as U.S. corporations for tax purposes would not be subject to the PFIC or CFC rules.

In addition to PFIC and CFC rules, a U.S. corporation that holds U.S. real property (such as agricultural properties) may be considered a U.S. Real Property Holding Company and reincorporation to a foreign jurisdiction may trigger consequences under the Foreign Investment Real Property Tax Act (FIRPTA). FIRPTA was adopted to impose a tax on gains derived by foreign persons from the sale of U.S. real property. Under Section 897(a)(1) of the U.S. Internal Revenue Code of 1986, as amended (Code), gain or loss recognized by a foreign person on the disposition of a U.S. real property interest (a USRPI) is generally taxable in the U.S. as gain or loss effectively connected with a U.S. trade or business. Foreign corporations that are subject to the “anti-inversion” rules and are treated as U.S. corporations for tax purposes would not be subject to FIRPTA. Unless an exception applies, non-US shareholders of a U.S. Real Property Holding Company (including a foreign corporation that is classified as a US corporation under the anti-inversion rules) will be subject to FIRPTA income and withholding taxes upon a disposition of their shares.

This is only a brief summary of these highlighted tax rules, and numerous exceptions and additional requirements may apply. The tax consequences of Section 367 and the anti-inversion rules of Section 7874 are significant, and should be well considered by the corporation and its tax advisors.
ACCESS TO U.S. CAPITAL

Companies listing on the CSE ideally want access to U.S. capital, particularly if they are a U.S. company. Companies listed solely on a Canadian exchange, can still raise money and attract trading from U.S. sources.

**Company Financings.** Qualified Investors in the U.S. may invest in CSE listed companies, particularly through a private placement (often referred to as a Private Investment in Public Equity or PIPE in the U.S.). A company may offer and sale securities in the U.S. without registration under the U.S. Securities Act to Accredited Investors under Regulation D or QIBs under Rule 144A. Securities issued in the U.S. without registration are “restricted securities” and will bear a U.S. restrictive legend. There is no limitation on the amount that can be raised in the U.S. pursuant to exemptions under Regulation D or Rule 144A.

**Regulation A+**. A company may qualify an offering under Regulation A+ on Form 1-A to register the offer and sale of securities to the public with the SEC. The qualified securities may be offered and sold in the United States and outside the United States and will be unrestricted securities under U.S. securities laws. Regulation A+ permits companies to access the capital markets and raise up to US$50 million in a 12 month period. Regulation A+ is available only to U.S. and Canadian companies that have their principal place of business in the United States or Canada. Securities qualified under Regulation A+ are unrestricted securities. See, Appendix A – “Regulation A+ Cheat Sheet”.

**Trading CSE Stocks.** A holder of restricted securities of a Foreign Private Issuer may resale the securities the CSE pursuant to exclusions available under Regulation S or after one year under Rule 144 of the U.S. Securities Act. If the company is a Foreign Private Issuer, restricted securities may generally be resold through the facilities of the CSE under Regulation S, subject only to applicable Canadian hold periods and resale restrictions. Many major U.S. broker-dealers can facilitate trading through the facilities of the CSE, subject to U.S. securities laws.

**Secondary Trading on U.S. Over-the-Counter Markets.** CSE issuers can access U.S. investors by being quoted on a U.S. over-the-counter (OTC) market such as the OTCQX, OTCQB, OTC Pink and other secondary markets. A secondary market may develop on OTCQX, OTCQB, OTC Pink without SEC registration. Issuers may facilitate development of a U.S. secondary market through qualifying for certain exemptions under state blue sky laws such as manual listing with Mergent.\(^6\)

**Interlisting on a U.S. Market.** Companies listed on the CSE can also access U.S. capital by interlisting on a U.S. Exchange, subject to satisfying the listing requirements of the exchange. The ability for a cannabis company that operates in violation of U.S. federal law to list its securities on a national U.S. exchange (e.g., NYSE, NASDAQ, NYSE American) is unclear; however, a cannabis company that operates outside the United States in compliance with the laws of the applicable jurisdictions should be able to qualify for listing. The primary benefit of a second

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\(^6\) Certain states provide an exemption from registration of secondary transactions of securities where the issuer of such securities must publish certain disclosure information on an ongoing basis in a securities manual published by Mergent (formerly known as Moody’s).
listing is access to another pool of growth capital and exposure to new analysts and institutional and retail investors. See the next section for more information on interlisting.

**CROSS-BORDER LISTINGS**

A CSE listed company may seek a secondary listing on a U.S. exchange (e.g., NYSE, NASDAQ, NYSE American) based in part on trading and pricing histories in Canada. Note that a company engaged in illegal (federal or state) activities (i.e., the cannabis business in the United States) will not be eligible for listing on a U.S. exchange (e.g., NYSE, NASDAQ, NYSE American). These issuers may be eligible for quotation on the OTC Markets’ OTCQX and OTCQB markets in the United States.

A company must register its securities under the U.S. Exchange Act to qualify for a listing on a U.S. exchange and the issuer must satisfy the listing requirements of the exchange. An issuer that has filed a registration statement to register an offering of securities under the U.S. Securities Act can register the class of securities under the U.S. Exchange Act by filing a Form 8-A with the SEC.

An issuer that has not filed a registration statement to register an offering of securities under the U.S. Securities Act can register the class of securities under the U.S. Exchange Act by filing a Form 10 with the SEC or, in the case of a Foreign Private Issuer, a Form 20-F. Form 10 and Form 20-F are long form registration statements requiring prospectus level disclosure and are subject to an SEC review and comment process.

Foreign Private Issuers that are incorporated in Canada may be able to take advantage of the SEC’s multi-jurisdictional disclosure system (MJDS), which permits qualified issuers to register securities under the U.S. Exchange Act on Form 40-F and to satisfy ongoing U.S. filing requirements using Canadian disclosure materials. Form 40-F is a short form registration statement that incorporates a Canadian issuer’s Canadian disclosure materials into the filing and is not normally subject to extensive review by the SEC.

Companies that are required to file reports under the U.S. Exchange Act are subject to the requirements of Sarbanes-Oxley, including Section 404 reporting requirements related to internal control over financial reporting.
## APPENDIX A – REGULATION A+ CHEAT SHEET

<table>
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<th>United States Public Offerings</th>
<th>Registered Offering</th>
<th>Regulation A+ Tier 1</th>
<th>Regulation A+ Tier 2</th>
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<td></td>
<td>Quarterly: Form</td>
<td></td>
<td>Semi-annual:</td>
</tr>
</tbody>
</table>

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7 Available for “emerging growth companies” for first time registrants filing Form S-1 or issuers filing Form 1-A. A minimum 21 day waiting period before sales can commence after the “live” public filing.

8 Test the water materials must contain specified legends and are required to be filed with the SEC.

9 Two year exemption from Section 12(g) reporting requirements for issuers otherwise required to report.
| National Market Listings<sup>10</sup> (Nasdaq/NYSE/NYSE-American) | 10-Q | Form 1-SA
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yes</strong> Form 8-A</td>
<td><strong>No</strong></td>
<td><strong>Yes</strong> (Requires SEC Reporting) Form 8-A</td>
</tr>
<tr>
<td>Blue Sky Exemption</td>
<td><strong>No</strong> (National Market Listings Exempt)</td>
<td><strong>No</strong></td>
</tr>
<tr>
<td></td>
<td>Disclosure provides basis for Form 211</td>
<td></td>
</tr>
<tr>
<td>Rule 144 Eligibility</td>
<td>Exchange Act Reporting provides basis for Rule 144&lt;sup&gt;11&lt;/sup&gt;</td>
<td><strong>No</strong></td>
</tr>
</tbody>
</table>
| Other Restrictions | | | Bad Actor
| | | Shell Companies
| | | 1934 Act Reporting Issuers Investment Companies
| | | 12j Issuers
| | | Fractional Interest Holders (Oil/Mineral)

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<sup>10</sup> A company engaged in illegal activities (federal or state)(such as the cannabis business in the United States) will not be eligible for listing on a U.S. exchange.

<sup>11</sup> Subject to “shell company” limitations of Rule 144.
# Appendix B – At a Glance Considerations for U.S. Companies

<table>
<thead>
<tr>
<th>Considerations</th>
<th>U.S. Domestic Issuer</th>
<th>Foreign Private Issuer (FPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canadian Prospectus</strong></td>
<td>A Canadian prospectus or Information Statement (in a qualifying transaction with a CPC) is required regardless of jurisdiction of incorporation when listing on a Canadian exchange.</td>
<td></td>
</tr>
<tr>
<td><strong>Canadian Reporting</strong></td>
<td>All Canadian public companies are subject to reporting requirements in Canada. Note that SEC filings may satisfy these reporting requirements. Consult Canadian legal advisors for guidance on these requirements.</td>
<td></td>
</tr>
<tr>
<td><strong>U.S. Registration of Offering</strong></td>
<td>A U.S. Domestic Issuer that does not file a registration statement with the SEC in connection with its IPO (or other financing) must qualify for an exemption under the U.S. Securities Act. In most cases, the securities issued will be “restricted securities” for U.S. securities law purposes and any trading on the CSE would be limited.</td>
<td>A FPI will not generally file a registration statement with the SEC in connection with its IPO. Instead, a FPI normally relies on exclusions available under Regulation S to issue unrestricted shares outside the United States. A FPI may issue shares, which are “restricted securities”, to qualified investors in the United States in private placements. Holders of restricted securities may resell the shares on the CSE, subject to the requirements of Regulation S.</td>
</tr>
<tr>
<td><strong>U.S. Reporting</strong></td>
<td>A U.S. Domestic Issuer that does not file a registration statement on Form S-1 to register securities offered in the IPO and has fewer than 2,000 shareholders of record or 500 shareholders of record that are non-accredited investors would qualify for an exemption from the reporting obligations under the U.S. Exchange Act.</td>
<td>A FPI that does not file a registration statement with the SEC to register securities offered in the IPO and has fewer than 2,000 shareholders of record or 500 shareholders of record that are non-accredited investors would qualify for an exemption from the reporting obligations under the U.S. Exchange Act. Alternatively, a FPI may qualify for an exemption from registration available under Rule 12g3-2(b).</td>
</tr>
<tr>
<td><strong>Sarbanes Oxley</strong></td>
<td>Non-SEC reporting issuers are not subject to the requirements of Sarbanes-Oxley. Issuers that are required to file reports under the U.S. Exchange Act are subject to the requirements of Sarbanes Oxley, including Section 404 reporting requirements related to internal control over financial reporting.</td>
<td></td>
</tr>
<tr>
<td><strong>U.S. GAAP</strong></td>
<td>A U.S. Domestic Issuer that is a reporting</td>
<td>FPI that is a reporting issuer with the SEC is permitted</td>
</tr>
<tr>
<td>Considerations</td>
<td>U.S. Domestic Issuer</td>
<td>Foreign Private Issuer (FPI)</td>
</tr>
<tr>
<td>------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Financial Statements</td>
<td><strong>issuer is required to prepare financial statements in accordance with U.S. GAAP. Annual financial statements are required to be audited by a member in good standing with the Public Company Accounting Oversight Board. Interim financial statements are required to be reviewed by the issuer’s auditor.</strong></td>
<td><strong>to prepare financial statements in accordance with home country GAAP. Annual financial statements must be reconciled to U.S. GAAP and audited by a member in good standing with the Public Company Accounting Oversight Board. Interim financial statements are not required to be reviewed by the issuer’s auditor or reconciled to U.S. GAAP unless included in a U.S. Securities Act registration statement.</strong></td>
</tr>
<tr>
<td>U.S. Resale Restrictions</td>
<td><strong>Unless registered under the U.S. Securities Act, all securities issued in the IPO are restricted securities and subject to a one year distribution compliance period or hold period.</strong> <strong>Restricted securities continue to be restricted securities even following a resale transaction (Rule 904) on the CSE.</strong></td>
<td><strong>Securities issued by a FPI outside the United States in accordance with Regulation S are unrestricted securities and may be freely transferred on the CSE. Securities issued in the United States to qualified investors in the U.S. in private placements are “restricted securities” and may be resold on the CSE in accordance with the requirements of Regulation S (Rule 904).</strong></td>
</tr>
<tr>
<td>Subsequent Financings</td>
<td><strong>A U.S. Domestic Issuer must register securities with the SEC under the U.S. Securities Act (by filing a registration statement on Form S-1 or, if available Form S-3) or an exemption from such registration requirements must be available. Exempt offerings are completed on a &quot;private placement&quot; or offshore financings outside the U.S. under Regulation S, and involve, in either case, the sale of restricted securities and subject to a one-year distribution compliance period or hold period.</strong> <strong>Restricted securities continue to be restricted securities even following a resale transaction (Rule 904) on the CSE.</strong></td>
<td><strong>Securities issued by a FPI outside the U.S. in accordance with Regulation S are unrestricted securities and may be freely transferred on the CSE. Securities issued by a FPI in the United States to qualified investors in private placements are “restricted securities” and may be resold on the CSE in accordance with the requirements of Regulation S (Rule 904). A public offering of securities into the U.S. may be made by filing a registration statement under the U.S. Securities Act with the SEC on Forms F-1 or S-1 or, if available, Forms F-3 or S-3. Additionally, certain FPIs may qualify for the Multi-Jurisdictional Disclosure System, which permits the FPI to register securities under the U.S. Securities Act pursuant to a Canadian prospectus filed under cover of Form F-10. Filing a registration statement with the SEC will subject the FPI to the ongoing reporting requirements under the U.S. Exchange Act pursuant to Section 15(d).</strong></td>
</tr>
</tbody>
</table>

12 Regulation A+ provides a limited exception from the registration requirements of the U.S. Securities Act for offers and sales during a 12 month period of up to US$50 million. The issuer would be required to file a Form 1-A with the SEC and the securities would be free trading securities.

13 Regulation S requires a one-year distribution compliance period during which securities issued under Regulation S by U.S. Domestic Issuers may not be sold in the U.S. or to, or for the account or benefit of, a U.S. person. The distribution compliance period is six months for U.S. Domestic Issuers that file reports under the U.S. Exchange Act and are current in their filings.