

Canadian Securities Exchange (CSE)

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Canadian Securities Exchange enjoying best year yet; large cannabis financings a particular highlight

It is clear from speaking with people both inside the Canadian Securities Exchange and around the broader financial community that 2018 is going to be remembered as perhaps the most transformational year in the CSE's history.

Huge financings, billion-dollar market caps, a steady stream of international listings, and financial institutions investing in CSE issuers like never before are only some of the talking points. Fast-growing, well-capitalized companies and strong investor interest in them have elevated the exchange to a new level.

Total capital raised by CSE issuers looks set to increase by over 500% compared to 2017, with a chance at topping the \$5 billion mark. Curaleaf Holdings certainly played its part, raising \$520 million during its listing transaction in October. The company stated in a related news release that over 100 financial institutions had supported its financing.

Rapid expansion of market capitalization

"Clearly, standout events have been taking place over the last few months, with the number of very large US-based cannabis issuers that have joined the exchange," remarks Richard Carleton, CSE Chief Executive Officer, during a discussion in late November. "We are seeing the most rapid expansion of market capitalization and impact on the exchange since our inception."

Climbing 13.25% year-to-date, the total market capitalization of CSE listed companies is growing appreciably thanks to the contributions of several larger entrants to the marketplace. And while Curaleaf leads the way with its \$2+ billion valuation, there are plenty of other issuers that qualify as solid mid-caps in the Canadian market. Microcaps still constitute the majority of listings, but bigger companies are finding the exchange to be a suitable home as well.

It's no secret that the CSE is the go-to exchange for listing cannabis companies with operations in the United States. The CSE never shied away from the cannabis industry in Canada, and when considering how to manage prospective issuers from south of the border, exchange officials spent time with regulators and professional services providers to confirm there was a high degree of comfort with the industry's risk profile. One of the advantages of investing in public companies, after all, is strict disclosure standards designed to ensure that investment risk can be accurately assessed.

The next development in the cannabis sector at the CSE, beyond more large listings almost ready to debut, is the development of cannabis index products in 2019. "The CSE is the only location globally where you see as heavy a concentration of US cannabis issuers, so we are the logical place for such an index to be calculated and disseminated," notes Carleton. Could related ETFs be far behind?

Whilst cannabis stocks may be dominating the headlines, the CSE has also welcomed a strong contingent of new mining companies in 2018, a total of 57 through the end of November.

"We have in fact seen a significant number - and in absolute numbers almost a record - of mining companies get onto the exchange and receive funding this year," says Carleton. "My sense is that some of the profits from trading in the

Share Information

Code: CSE

Listing:

Sector: General Financials

Website: www.thecse.com

Company Synopsis:

The Canadian Securities Exchange, or CSE, is operated by CNSX Markets Inc. Recognized as a stock exchange in 2004, the CSE began operations in 2003 to provide a modern and efficient alternative for companies looking to access the Canadian public capital markets.

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cannabis space over the last couple of years are being applied to the mining sector."

Tech listings have been increasing as well, even though appetite for everything blockchain has slowed compared to the enthusiasm of late 2017. Interestingly, the industry enthusiasm for cannabis might just dovetail with ongoing international outreach initiatives by the CSE to put new funding alternatives on the table in the tech space.

Canadian public equity markets a viable alternative for US companies

Smaller companies in the US and other international markets are finding it increasingly difficult to obtain private funding as private equity funds increase in size and need to make larger investments in portfolio components. A primary Canadian listing on the CSE would be worth considering for many young growth companies.

"We are being exposed to advisors in the United States who are beginning to understand that the Canadian public equity markets are in fact a viable alternative for US companies looking for growth capital," says Carleton. "We've had conversations with a number of these professionals about taking what we have learned from the capitalization efforts in the US cannabis space and applying that to companies from other sectors that perhaps have not been that well served by the venture capital and private equity models that are the principal source of growth capital for early stage US companies."

Speaking of tech, the CSE has an ongoing project of its own in the form of a blockchain-enabled clearing and settlement facility. The project team is in the late stages of quality assurance and plans call for moving to external testing with dealers and other interested parties before the end of 2018.

"Dealers continue to be extremely eager to get their hands on it," Carleton explains. "They understand the business case and the client service benefits, as well as the number of companies that would like to use security tokens as a means of securing capital. We continue to be very excited about this facility and it is going to be one of the things on the agenda for 2019."

Continually working to improve the issuer experience is an important part of the CSE's culture, and that's reflected in exchange staff organizing or participating in over 80 events during 2018.

New Toronto office

The CSE seeks to make that part of its business even stronger in 2019 with relocation to a new office, the highest office floor in Toronto, no less - 72 stories up at First Canadian Place. "This was really brought on by the anticipated growth in our staffing levels, particularly in the listings regulation area," says Carleton. "It is important that we continue to maintain high service levels for our issuers and deploy our regulatory responsibilities as an exchange."

A full-blown market opening centre is in the works and it will be just one of several first-day activities designed to ensure that a new issuer's launch into the public markets gets off to a good start. "The new First Canadian Place location will provide the space and a spectacular backdrop to have exactly that kind of experience."

New issuers will be pleased to learn that they are joining an exchange that again set full-year records for trading volume, trading value, and other measures of investor participation.

Trading volume up

In the first 11 months of the year, trading volume was already 54.97% higher than the total for all of 2017, topping 27.05 billion shares. Most measures of investor activity had actually surpassed last year's record levels by mid-summer. And with the listing application pipeline exceptionally healthy as we head into year-end, look for 2019 to be another blockbuster.

Granted, capital markets in Canada are having a better year in general, but the CSE's pace of growth in 2018 is validation of a business model that puts the needs of issuers first. Fund managers from around the world confirm this, sophisticated management teams who choose the CSE over multiple alternatives confirm this, and investors trading tens of millions of shares per day in individual companies confirm this.

Carleton and his team see it first-hand and fully anticipate 2019 to be another year of growth and progress in many forms. Be it cannabis and tech businesses listing from the US, Israeli companies following up on the CSE's multiyear effort there to introduce the CSE listing concept, or new investors learning about the many opportunities presented by CSE issuers, the outlook could hardly be brighter.

"Things are going well but we need to keep our foot on the accelerator," Carleton concludes. "Top quality service for our issuers, a fair and well-regulated trading environment, and continued innovation in the exchange's technology and business practices. It has worked so far, and we are going to keep at it."

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