

Canadian Securities Exchange (CSE) action@proactiveinvestors.com

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Canadian Securities Exchange Builds on Strong 2019 with Biggest Plans Yet

CSE issuers felt the market tap on the brakes in 2019, as investors finally took a breather following years of growing financings, soaring market caps and record trading activity. The numbers for the year through November were still solid, mind you, as details below make clear, and new trends are emerging as the market continues its endless search for the best ways to deploy capital.

Look no further than the CSE Composite Index for an accurate barometer of the market's mood. Thousands of variables influence its closing value each day, but mixed corporate performance in the cannabis sector and seasonal tax-loss selling are probably the two biggest factors behind the benchmark shedding some 39% compared to the beginning of 2019.

Then again, report strong earnings or other robust news and you'll still see your share price head north in a hurry, as multiple issuers have recently found to their delight. The market is doing what it is supposed to do - reward the companies farther along the development curve with higher valuations.

More than one analyst is suggesting there is plenty of opportunity to be had in the current environment, and we'll find out if that's the case as we progress through 2020. But key to the future is the year we're about to wrap up and some important developments upcoming at the CSE to make the issuer experience even better.

The return of the initial public offering, or IPO, is definitely an important theme. Through the first 11 months of 2019, 30 companies listed on the CSE through initial public offerings. That compares to just eight on all exchanges in Canada combined in 2016. And a double-digit list of IPO applications to the CSE is making its way through the approvals process, so there are more to come.

A shift in regulatory guidance encouraging companies to list by means of an IPO deserves a good deal of credit for the trend. And IPO issuers enjoy many benefits unique to their listing path, including greater control over share structure and having their documentation reviewed by both the CSE and the provincial securities commission in their jurisdiction of registration. That extra layer of regulatory approval doesn't hurt when it comes time to approach potential investors for new capital.

Speaking of financing activity, it is slower so far in 2019 compared to the record pace of 2018, but still healthy by any measure. Year-to-date, CSE issuers have raised a total of \$2.8 billion, as compared to \$5 billion for the same January-to-November period in 2018. Another trend showing up is the increasing presence of convertible debt as a percentage of total funds raised, and institutional investors stepping up to the plate to buy these new instruments.

Volume and value traded numbers remained strong on balance, which is important when the capital raising environment tightens. Year to date at the end of November, trading volume was down 33%, but the value of trade was higher by 8.1%, the latter number climbing to a record \$20.5 billion.

"Although the US and Canadian cannabis sectors are having their challenges attracting capital under the present market conditions, we have seen an important revival in the gold exploration sector, and an increasing investor focus on

Share Information

Code: CSE

Listing:

Sector: Financial Services

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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the business of esports," notes Richard Carleton, the CSE's Chief Executive Officer. "We are also seeing the arrival of cannabis and hemp companies from overseas for the first time; a response to the outreach efforts we've made over the last few years."

The CSE began visits and events in Israel, for example, a little over two years ago. The country has a world class "start-up culture," but lacks the investment infrastructure to back companies in the cannabis space. And the results are starting to come through.

In the second half of 2019, the CSE welcomed its first Israeli issuers - three over six weeks, as a matter of fact. And the outreach to the business community in Israel will continue, now that multiple issuers have joined the exchange and can attest to the ease of working with the CSE and the benefits of a Canadian public listing.

Similarly, a memorandum of understanding with the Jamaica Stock Exchange, home to public companies with some \$14 billion in total market capitalization, will see the two exchanges explore opportunities to cross-list companies and share expertise.

"The business community is so connected now that when you cannot meet a need inside your own borders, there is often an accessible solution somewhere else in the world. And because of technology, you, your stakeholders and your broader audience can realistically take advantage of it," says Carleton. "For us, there's an opportunity to take the strengths of Canada's capital markets and those of the CSE abroad, and everyone benefits."

A development that issuers at home and abroad should find particularly interesting is the CSE's plan to create a senior tier for issuers meeting certain criteria. "As the average size of CSE issuers increases and transactions become more complex, we are readying a senior tier to acknowledge that due diligence required by us on a \$500,000 mining property option, for example, is not the same as for a \$1 billion cannabis acquisition involving multiple business lines and operations in several states," Carleton explains. "We felt the time was right to set different standards for the larger companies - easier in some ways and stricter in others, but all embracing the CSE's philosophy of thinking like an entrepreneur and helping companies position themselves for capital markets success. I think everyone is going to like what we debut in the next month or so."

That sentiment certainly applies to the CSE's new head office, which the exchange's Toronto team moved into in the first quarter of 2019. It's on the highest office floor in all of Canada, and home to a new media centre that opened in September. Market Opens and a professional podcast studio are just some of the media centre features created to help CSE issuers broaden their networks by leveraging the reach and brand of the exchange.

Before too long, the CSE brand will also embrace a new clearing and settlement platform. Third-party testing with multiple brokerages continues to prove that this groundbreaking system for tokenized securities will not only shorten the clearing process, thus reducing industry capital commitments, but also make dividends and other entitlements easier to distribute.

"The CSE celebrated its 15th anniversary in September and while each year has been important in bringing us to where we stand today, it's really been in the past five years that we've established ourselves as a growth and opportunity leader among global exchanges for small- to mid-cap companies," concludes Carleton. "And it all traces back to our culture of thinking like the entrepreneurs who list with us. Being efficient, doing things right, and always looking for better ways to serve the needs of our customers is in our corporate DNA. It's why you'll always see us growing and evolving. It's why we'll always be a top choice for growth companies who want efficient access to public capital and valuation. We are extremely proud to offer that choice."

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