



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF
CANADA CANNABIS CORPORATION, CANADIAN CANNABIS CORPORATION,
BENJAMIN WARD, SILVIO SERRANO, and PETER STRANG**

STATEMENT OF ALLEGATIONS
(Section 127 and Section 127.1
of the *Securities Act*, RSO 1990, c S.5)

A. OVERVIEW

1. This proceeding involves fraudulent conduct in the burgeoning cannabis sector.
2. On January 20, 2014, Benjamin Ward, Peter Strang, Silvio Serrano and others formed a cannabis cultivation and distribution company known as Canada Cannabis Corporation which subsequently, through a reverse take-over, became Canadian Cannabis Corporation (collectively referred to as “CCC”). Ward was Chief Executive Officer and director of CCC. Both Strang and Serrano were Vice Presidents and either directors or *de facto* directors of CCC. The Respondents raised approximately \$3.2 million and USD 8.8 million from approximately 125 investors, approximately 60 of which are located in Ontario, by selling shares and debentures of CCC.¹ Ward, Strang and Serrano represented to investors that their funds would be used to develop and operate CCC. Instead, Ward, Strang and Serrano syphoned off more than \$3 million from CCC by making a loan to a company owned by Serrano. The loan was eventually written off without any attempt by the Respondents to collect interest payments nor recover any of the principal. By the fall of 2016, Ward, Strang and Serrano had resigned from CCC, leaving behind a company depleted of all investor funds without ever having engaged in the cultivation or distribution of cannabis.
3. Investors are interested in investing in cannabis companies. They believe that they can earn a quick and profitable return from their investment in this industry. These investments, however, can be highly speculative, and the cost of an investment in a cannabis company may be based on

¹ All figures are in Canadian dollars unless otherwise stated.

the expectation of its future success rather than its current performance. All issuers and their management, including those in the cannabis industry, must accurately and truthfully disclose how invested funds will be used. Investor funds must be used for the purposes described by the issuer, not for the personal gain of management.

B. FACTS

4. Ward, Strang and Serrano are residents of Ontario.

5. Prior to the incorporation of CCC, in January 2014, Ward, Strang and Serrano created an investor brief for CCC dated January 16, 2014 (the “**Investor Brief**”) and used it to solicit investors. The Investor Brief contained numerous untrue statements (collectively, the “**Misleading Statements**”), including:

- (a) that CCC’s “Core Business” included Growlite Canada (“**Growlite**”), a horticultural lighting company. This was false as CCC had yet to be incorporated;
- (b) that “CCC has purchased 45% of [Growlite].” This was false as CCC had not yet entered into an agreement to make the investment in Growlite. CCC had not made the equity investment nor the loan to Growlite at this time;
- (c) that Growlite sales in the first month of business totalled 2,000 units. This was false as Growlite did not achieve this level of sales volume; and
- (d) that Ward held a doctorate degree. This was false as Ward never obtained a PhD.

6. Ward, Strang and Serrano are responsible for the Misleading Statements and knew or ought to have known that the Investor Brief was being used to solicit CCC investors.

7. CCC’s initial business plan was to apply for and acquire a license to grow and market medical cannabis products in Canada. While CCC applied for a license on or around April 25, 2014 to produce and supply medical cannabis, Ward withdrew CCC’s license application on May 9, 2016, two years after the initial application, and did not tell investors that he had withdrawn the application.

8. Between January 20, 2014 and August 29, 2016, the Respondents raised approximately \$3.2 million and USD 8.8 million from approximately 125 investors, of which approximately 60 were located in Ontario. The Investor Brief was provided to some investors in 2014.

9. Investor funds were misused. Shortly after establishing CCC, Ward, Strang and Serrano devised a scheme whereby CCC would use investor funds to purchase an interest in and make a loan to Growlite. Serrano owned Growlite.

10. On January 19, 2014, Ward, Strang and Serrano allocated 20 minutes at a CCC board meeting to negotiate the purchase of an interest in Growlite. At no point before, during or after the meeting did the Respondents hire a valuator to determine the value of Growlite, address the conflict arising from investing in Serrano's company, or conduct meaningful negotiations on the price.

11. Instead, on February 2, 2014, Ward, Strang and Serrano came to a "handshake" agreement to use \$1 million of investor funds to purchase a 45% interest in Growlite. Ward, Strang and Serrano also agreed to use \$3 million of investor funds to finance a loan to Growlite (the "**Loan**"). Ward, Strang and Serrano used the Loan to defraud investors.

12. Before the Loan agreement was signed, between February 5, 2014 and March 28, 2014, \$4 million of investor funds was transferred to Growlite for both the investment in and Loan to Growlite.

13. Between February 5, 2014, before the Loan agreement was signed, and August 29, 2016, approximately \$2,731,000 and USD 224,000 of the Loan (representing more than the \$3 million Loan given to Growlite) was directed away from the business of Growlite and to the benefit of Serrano and Strang, their families or companies controlled by them as follows:

- (a) Serrano or companies controlled by him: \$1,500,000 and USD 224,000;
- (b) Strang or companies controlled by him: \$860,000;
- (c) Serrano's brother, or companies controlled by him: \$215,000;
- (d) Serrano's father, or companies controlled by him: \$45,000;

- (e) a criminal defence lawyer who represented Serrano's father: \$48,500; and,
- (f) Serrano's cousin, or companies controlled by him: \$62,500.

14. Ward and Serrano signed the Loan agreement dated March 31, 2014. The interest rate on the Loan was 2% to be paid quarterly. Growlite never made any of the required interest payments.

15. Ward, Strang and Serrano knew or ought to have known that using the Loan for the benefit of Serrano and Strang, their families or companies controlled by them deprived CCC investors of the prospect of realizing growth opportunities in Growlite.

16. Additionally, at no point did Ward, Strang or Serrano take any steps to protect CCC's investment in Growlite. The Respondents did not sign a security agreement for the Loan until May 2015, well after investor funds from the Loan had begun to be redirected. The Respondents also made no attempt to recover the Loan.

17. In the summer or fall of 2015, approximately \$800,000 worth of Growlite inventory of lights stored at CCC's proposed cannabis growing facility (the "**Inventory**") disappeared under suspicious circumstances. Ward, Strang and Serrano failed to report the matter to police, nor did they file an insurance claim or take any steps to recover the value of the Inventory.

18. By not filing an insurance claim or pursuing other legal steps to recover the value of the Inventory, Ward, Strang and Serrano deprived CCC of one of its only remaining assets.

19. The Loan was eventually written off in April 2016.

C. BREACHES OF ONTARIO SECURITIES LAW AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

20. By engaging in the conduct described above, Ward, Strang, Serrano, and CCC raised millions of dollars using the Investor Brief, which contained untrue statements, and then placed investors' capital at risk by diverting investor funds away from CCC for their own personal gain. The Respondents engaged in or participated in acts, practices, or courses of conduct relating to securities that they knew or reasonably ought to have known perpetrated a fraud on persons or companies contrary to subsection 126.1(1)(b) of the *Securities Act*, RSO 1990, c.S.5, as amended

(the “Act”). This fraudulent behaviour undermines public confidence in the fairness and efficiency of Ontario’s capital markets. It is conduct contrary to the public interest.

21. Enforcement Staff allege the following breaches of Ontario securities law and/or conduct contrary to the public interest by the Respondents during the time January 20, 2014 and August 29, 2016:

- (a) Ward, Strang, Serrano, and CCC directly or indirectly engaged in or participated in acts, practices or courses of conduct relating to securities that they each knew or reasonably ought to have known perpetrated a fraud on persons or companies, contrary to subsection 126.1(1)(b) of the Act;
- (b) Ward, Strang and Serrano, as officers and/or directors or *de facto* directors of CCC, authorized, permitted, and/or acquiesced in the breaches of subsection 126.1(1)(b) of the Act by CCC and thereby failed to comply with Ontario securities law pursuant to section 129.2 of the Act; and,
- (c) Ward, Strang, Serrano, and CCC have engaged in conduct that is contrary to the public interest.

22. Enforcement Staff reserve the right to amend these allegations and to make such further and other allegations as Enforcement Staff may advise and the Commission may permit.

D. ORDER SOUGHT

23. Enforcement Staff request that the Commission make the following orders:

- (a) As against **Canada Cannabis Corporation**, an Ontario corporation that is not a reporting issuer in Ontario, and **Canadian Cannabis Corporation**, a Delaware corporation that is a Smaller Reporting Company for the purpose of the United States Securities and Exchange Commission:
 - (i) that it cease trading in any securities or derivatives permanently or for such period as is specified by the Commission, pursuant to paragraph 2 of subsection 127(1) of the Act;

- (ii) that it be prohibited from acquiring any securities permanently or for such period as is specified by the Commission, pursuant to paragraph 2.1 of subsection 127(1) of the Act;
 - (iii) that any exemption contained in Ontario securities law not apply to it permanently or for such period as is specified by the Commission, pursuant to paragraph 3 of subsection 127(1) of the Act;
 - (iv) that it be reprimanded, pursuant to paragraph 6 of subsection 127(1) of the Act;
 - (v) that it be prohibited from becoming or acting as a registrant, or promoter permanently or for such period as is specified by the Commission, pursuant to paragraph 8.5 of subsection 127(1) of the Act;
 - (vi) that it pay an administrative penalty of not more than \$1 million for each failure to comply with Ontario securities law, pursuant to paragraph 9 of subsection 127(1) of the Act;
 - (vii) that it disgorge to the Commission any amounts obtained as a result of non-compliance with Ontario securities law, pursuant to paragraph 10 of subsection 127(1) of the Act;
 - (viii) that it pay costs of the Commission investigation and the hearing, pursuant to section 127.1 of the Act; and
 - (ix) such other order as the Commission considers appropriate in the public interest.
- (b) As against each of **Benjamin Ward, Peter Strang and Silvio Serrano**:
- (i) that he cease trading in any securities or derivatives permanently or for such period as is specified by the Commission, pursuant to paragraph 2 of subsection 127(1) of the Act;

- (ii) that he be prohibited from acquiring any securities permanently or for such period as is specified by the Commission, pursuant to paragraph 2.1 of subsection 127(1) of the Act;
- (iii) that any exemption contained in Ontario securities law not apply to him permanently or for such period as is specified by the Commission, pursuant to paragraph 3 of subsection 127(1) of the Act;
- (iv) that he be reprimanded, pursuant to paragraph 6 of subsection 127(1) of the Act;
- (v) that he resign any position he may hold as a director or officer of any issuer, pursuant to paragraph 7 of subsection 127(1) of the Act;
- (vi) that he be prohibited from becoming or acting as a director or officer of any issuer permanently or for such period as is specified by the Commission, pursuant to paragraph 8 of subsection 127(1) of the Act;
- (vii) that he resign any position he may hold as a director or officer of any registrant, pursuant to paragraph 8.1 of subsection 127(1) of the Act;
- (viii) that he be prohibited from becoming or acting as a director or officer of any registrant permanently or for such period as is specified by the Commission, pursuant to paragraph 8.2 of subsection 127(1) of the Act;
- (ix) that he be prohibited from becoming or acting as a registrant or promoter permanently or for such period as is specified by the Commission, pursuant to paragraph 8.5 of subsection 127(1) of the Act;
- (x) that he pay an administrative penalty of not more than \$1 million for each failure to comply with Ontario securities law, pursuant to paragraph 9 of subsection 127(1) of the Act;

- (xi) that he disgorge to the Commission any amounts obtained as a result of non-compliance with Ontario securities law, pursuant to paragraph 10 of subsection 127(1) of the Act;
- (xii) that he pay costs of the Commission investigation and the hearing, pursuant to section 127.1 of the Act; and
- (xiii) such other order as the Commission considers appropriate in the public interest.

DATED at Toronto, September 13, 2019.

Staff of the Ontario Securities Commission

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