



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF
MICHAEL PAUL KRAFT and MICHAEL BRIAN STEIN**

STATEMENT OF ALLEGATIONS
(Subsection 127(1) and Section 127.1
of the *Securities Act*, RSO 1990, c S.5)

A. OVERVIEW

1. This case involves illegal tipping by a former Chairman and director of a public company which led to insider trading by his long-time acquaintance.
2. Tipping and insider trading are fundamental abuses of material non-public information. These practices are inherently unfair to investors and erode public confidence in Ontario's capital markets. It is essential that directors and officers of public companies exhibit the highest standard of conduct, including by ensuring that no communications of material non-public information are made outside the necessary course of business.
3. Between October 23, 2017 and November 21, 2017 (the **Material Time**), Michael Paul Kraft (**Kraft**), the Chairman and a director of WeedMD Inc. (**WeedMD**) at the time, tipped his acquaintance Michael Brian Stein (**Stein**) about an upcoming expansion by the company before it was generally disclosed.
4. As a result, Stein learned that WeedMD was finalizing several definitive agreements with Perfect Pick Farms Ltd. (**PPF**) to obtain additional greenhouse facilities for growing cannabis, including the terms of those agreements. The definitive agreements were signed on November 21, 2017 and announced by WeedMD in a news release on November 22, 2017 (the **Announcement**). In the Announcement, WeedMD characterized the expansion (the **Expansion**) as "transformational" and stated that it would lead to an increase in WeedMD's annual production from 1,200 kg to more than 21,000 kg.

5. On the day of the Announcement, the closing price of WeedMD shares increased by 33% from that of the previous day.

6. Armed with knowledge of material non-public information, Stein purchased shares of WeedMD on November 21, 2017, the day before the Announcement. Following the Announcement, Stein sold all of the WeedMD shares he had purchased for a return of nearly 43%.

B. FACTS

Staff of the Enforcement Branch of the Ontario Securities Commission (**Enforcement Staff**) make the following allegations:

WeedMD and the Expansion

7. WeedMD, now named Entourage Health Corp., is a reporting issuer in Ontario. WeedMD was listed on the TSX Venture Exchange on April 27, 2017.

8. On November 22, 2017, WeedMD made the Announcement, confirming that it had entered into a definitive lease and purchase option agreement with PPF for PPF's 98-acre property, which included a 610,000 sq. ft. state-of-the-art greenhouse facility that could be rapidly retrofitted for cannabis. The new facility was expected to increase WeedMD's annual production from 1,200 kg to more than 21,000 kg in the initial phase and eventually bring annual production to over 50,000 kg. The Expansion was characterized by WeedMD as "transformational".

9. The Expansion had not been generally disclosed prior to the Announcement.

10. After the details of the Expansion were generally disclosed, the closing price of WeedMD shares rose by 33% relative to the previous day's closing price. A material change report regarding the Expansion was filed by WeedMD on November 27, 2017. The Expansion was material in respect of WeedMD.

The Respondents

A. Michael Paul Kraft

11. Kraft is a resident of Ontario. He was the Chairman and a director of WeedMD during the Material Time.

B. Michael Brian Stein

12. Stein is a resident of Ontario. He operates a consulting business named Michael Stein & Associates Inc. He has been engaged as a consultant in areas relating to finance, company acquisitions, divestitures and restructuring, among other things.

13. Prior to and during the Material Time, Stein was a close acquaintance of Kraft, having known him since childhood.

14. Stein did not have any business, contractual or employment relationship with WeedMD during the Material Time.

Tipping and Insider Trading of WeedMD Shares

15. On October 23, 2017, Kraft sent Stein copies of draft definitive agreements regarding the Expansion (the **Draft Agreements**) via email. The Draft Agreements set out the nature and scope of the Expansion and included details that were later generally disclosed in the Announcement.

16. The Draft Agreements, with minor revisions, were sent to the board of directors of WeedMD (the **Board**) for review on October 31, 2017.

17. At a meeting on November 2, 2017, the Board authorized WeedMD management to proceed with execution of the Draft Agreements as presented to the Board. Kraft chaired this meeting of the Board.

18. During the Material Time, Kraft advised Stein that the Expansion would be announced on November 22, 2017.

19. WeedMD and PPF signed the definitive agreements on November 21, 2017.

20. On the same day, Stein purchased 45,000 WeedMD shares for a total amount of \$68,525.

21. After WeedMD made the Announcement, Stein sold all of his WeedMD shares on November 22 and 23, 2017 for a total amount of \$97,870. As a result, Stein made a profit of \$29,345, a return of approximately 43% on his initial investment on November 21, 2017.

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

22. Enforcement Staff allege the following breaches of Ontario securities law and conduct contrary to the public interest:

(a) Kraft, while in a special relationship with an issuer, informed another person outside of the necessary course of business of a material fact or material change with respect to the issuer, before the material fact or material change had been generally disclosed, contrary to subsection 76(2) of the *Securities Act*, RSO 1990, c S.5 (the Act); and

(b) Stein, while in a special relationship with an issuer, purchased or sold securities of the issuer with the knowledge of a material fact or material change with respect to the issuer that had not been generally disclosed, contrary to subsection 76(1) of the Act.

23. 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

24. Enforcement Staff seek the following orders against Stein and Kraft:

(a) that they cease trading in any securities or derivatives permanently or for such period as is specified by the Commission under paragraph 2 of subsection 127(1) of the Act;

- (b) that they be prohibited from acquiring any securities permanently or for such period as is specified by the Commission under paragraph 2.1 of subsection 127(1) of the Act;
- (c) that any exemption contained in Ontario securities law not apply to them permanently or for such period as is specified by the Commission under paragraph 3 of subsection 127(1) of the Act;
- (d) that they be reprimanded under paragraph 6 of subsection 127(1) of the Act;
- (e) that they resign any position they may hold as a director or officer of any issuer under paragraph 7 of subsection 127(1) of the Act;
- (f) that they be prohibited from acting as a director or officer of any issuer permanently or for such period as is specified by the Commission under paragraph 8 of subsection 127(1) of the Act;
- (g) that they resign any position they may hold as a director or officer of any registrant under paragraph 8.1 subsection 127(1) of the Act;
- (h) that they be prohibited from acting as a director or officer of any registrant permanently or for such period as is specified by the Commission under paragraph 8.2 of subsection 127(1) of the Act;
- (i) that they be prohibited from becoming or acting as a registrant or promoter permanently or for such period as is specified by the Commission under paragraph 8.5 of subsection 127(1) of the Act;
- (j) that they 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;
- (k) that they 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;

- (l) that they pay costs of the Commission investigation and hearing under section 127.1 of the Act; and
- (m) such other order or orders as the Commission considers appropriate in the public interest.

DATED at Toronto this 13th day of October, 2021.

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