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Re: Proposed Changes to the Canadian Financing Landscape

Good Day All,

I respectfully submit the following to all aforementioned parties for discussion in response the BC Securities Commission request for comment on items "Proposed Revocation of BC Instrument 32-513 Registration Exemption for Trades in Connection with Certain Prospectus-Exempt Distributions" and "BC Instrument 32-517 Exemption from Dealer Registration Requirement for Trades in Securities of Mortgage Investment Entities" and the Ontario Securities Commission 45-710 Considerations for New Capital Raising Prospectus Exemptions. I have copied John McCoach, President of the Toronto Stock Venture Exchange, and Robert Cook, President of the CNSX on this correspondence as I believe these issues also deeply impact the future and potential of the Canada's leading stock exchanges as well.

Firstly, it would appear that the OSC and BCSC policy suggestions mentioned above are moving in opposite directions given these two requests for comment where in my opinion they should be working together to build a thriving Canadian business environment. While one can imply that policy makers are evaluating these considerations based on a numerical or statistical basis, I am one of the increasingly few who actually operates in this early stage venture capital arena and have watched it become slowly decimated over the past several years. I will first outline my concerns regarding the recent BCSC request for comment and then subsequently my thoughts on the OSC proposals. It would appear appropriate given the similar requests for comment from the BCSC and the OSC that I should address my comments to both entities in the same letter so we can find ourselves on the same page to move Canadian financing policymaking forward in a universal and co-operative manner.

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Firstly, I am not in favor of the BCSC's proposal to change existing registration exemption regulation and my reasons for such are the following:

1. Seed round financial assistance for early stage or startup companies from Canadian registered brokerages seems to have been significantly declining for years, and many brokers have not demonstrated the ability to effectively market early stage opportunities without significant assistance from the target company or a pooling of efforts from other outside sources.

2. I personally concentrate on the recapitalization of early stage TSX Venture issuers and most of the financings I complete and witness at these levels non-brokered. This is because there are fewer and fewer brokers are willing to support ventures at this early stage, I think for two key reasons:

   a. Many Canadian registered brokers are now building their own capital pool companies and so most brokers now have their own vehicles which they are focused on supporting, which is adversely impacting the large pool of existing fully listed companies primarily on the TSX Venture who have traditionally marketed to these agents but are now being forced to find other independent sources of capital.

   b. Many brokers have witnessed significant declines in business over the past several years, and so any participating broker has a hard time committing a sizeable contribution to these higher risk types of financings.

   Most often in the past several years, an early stage financing 'book' needs to be managed by the target company in house, with financing contributions coming from a wide variety of outside sources.

3. Early stage companies and projects tend to entail more risk and from a financing perspective, I believe that risk should be distributed amongst a wider pool of smaller, equal opportunity financiers as opposed to a centralized few.

4. The barriers to entry for a private investor/potentially smaller financier continue to increase while global financing trends appear to reveal more startup and seed financing success as companies are able to embrace these kinds of smaller investor, microfinance styled methods.

5. While early stage investing certainly carries more risk, it is still where all great companies begin, and so I believe entrepreneurship must still be encouraged and supported at this level. While the BCSC policy proposal suggests that any proposed changes may statistically have a minor impact, I can tell you from my experience that this will likely have a significant detrimental impact to a niche that is already reeling from extremely difficult financial

conditions over the past several years. Ie. More early stage companies will have a harder time obtaining start-up capital.

If any standards are imposed by the BCSC or others, I suggest they take into consideration the fragility of this early stage, incubator level of entrepreneurship. But if indeed implemented, I suggest that any policy changes should at least exclude any financing up to the $3 million level which size level are customary at this early of a company's growth. Surely this is reasonable as any financing much larger usually needs to be supported by a larger institution anyways though that said, I suggest proposed larger, independent financings should also be provided a timely "submittal for exemption" process at the very least. Capital can often come through unexpected independent sources as well and so a mechanism should be in place to ensure these opportunities are not lost by too stringent a policy if one is in fact implemented.

On a philosophical note, I believe the various regulatory parties at all levels should be looking at ways to liberalize policies and make business easier for companies to operate in this country and attract capital. These markets have already been incredibly difficult as it is without us making the conditions harder on ourselves or limiting access to them for others.

One area I think has been overlooked to date but that is encouragingly mentioned in the OSC's 45-710 *Considerations for New Capital Raising Prospectus Exemptions* document that is relevant to this discussion is the consideration of crowd sourced financing, or "Crowdfunding." For reference, the document I refer to is located here: http://www.osc.gov.on.ca/documents/en/Securities-Category4/sn_20121214_45-710_exempt-market-review.pdf. For additional reference, from Wikipedia:

> ***Crowd funding*** *or* ***crowdfunding*** *(alternately* ***crowd financing***, ***equity crowdfunding***, *or* ***hyper funding****) describes the collective effort of individuals who network and pool their money, usually via the Internet, to support efforts initiated by other people or organizations. Crowd funding is used in support of a wide variety of activities, including disaster relief, citizen journalism, support of artists by fans, political campaigns, startup company funding, movie or free software development, inventions development and scientific research.*
>
> *Crowd funding can also refer to the funding of a company by selling small amounts of equity to many investors. This form of crowd funding has recently received attention from policymakers in the United States with direct mention in the JOBS Act; legislation that allows for a wider pool of small investors with fewer restrictions.*

In my opinion crowdfunding has proven an extremely successful model, but frustratingly in Canada, we appear to be pretty slow to react to it to these kinds of opportunities, specifically where finance meets technology. The reality is that this is no longer the marketplace of old. The integration and advancement of new technologies and ideas is now occurring faster than ever. For Canadian businesses to continue to compete and thrive internationally, I believe this country should and must be at the forefront of these changes. In particular as it relates to crowdfunding, given the current investment climate I believe that this technique is exactly how higher risk financings should be distributed to

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stimulate growth in this sector; not merely sourcing large sums of capital from few individuals, but by opening the potential for many smaller investors to participate; broadening financing sources and injecting new capital into the sector. As it relates to the OSC request for comments, I am a strong proponent for adopting crowdfunding right across Canada. Several questions as to how are asked in the OSC document. My thoughts on those questions in supporting the implementation of these ideas across all Canadian regulatory jurisdictions are as follows:

- All concerns raised in the document as it relates to crowdfunding appear to be manageable.

- Larger distribution given a large number of shareholders is a good thing for an early stage company by not giving up consolidated control to one or few entities.

- Ongoing disclosure can be managed through email, updates to a Company's website, and traditional methods like shareholder information circulars distributed through transfer agents or other recognized legal entities.

- Investor risks are no different through crowdfunding then any others. That said, one potential suggestion to improve the quality of offering on the platform could be offerings through sponsoring agents who chose to perform additional due diligence on particular opportunities and ensure greater credibility and reliability.

- To help alleviate fraud, companies wishing to raise capital through crowdfunding could be subjected to a reasonable but effective verification and/or background check.

- I suggest the potential benefits to investors are greater than as suggested. There is a continual suggestion that investors differ from the entrepreneurs that use the platform, when in fact support also comes from within these types of communities. A thriving Canadian crowdfunding community would most likely emerge, where various parties would then encourage, follow, and support each other's' ideas, much like the junior resource community has developed through the existing framework.

- Illiquidity concerns could be addressed through new secondary 'private' market platforms potentially introduced through the country's primary exchanges. An example of this is www.secondmarket.com, which is currently active in the US.

- I would like to see crowdfunding launch across all sectors but understand it should be offered on platforms that meet baseline standards established by securities regulators, possibly demonstrated initially in concept, secondly in beta, and launched with full approval thereafter.

- There should be no limit on advertising as described. Companies should be able to market their particular offering through all social media channels. This is a cornerstone of the model and greatly improves the success of these types of offerings.

- There should be no jurisdictional boundary to the crowdfunding investor as much as possible as one of our strengths in Canada is attracting foreign investment to our ideas, which helps grow our economy.

Personally, I would be willing to assist in developing new policy for such a platform and would also wish to run/launch such a project myself based on these kinds of guidelines. I look forward to the day we can experience a thriving crowdfinanced startup sector led by a greater distribution of early stage risk among investors, while democratically fostering increased activity amongst a broader pool of companies, entrepreneurs, investors and ideas.

The moral of the story is that with already challenging markets, I believe we need more liberalizing and proactive policy ideas, not more red tape, to encourage and maintain a thriving and creative venture capital climate in this country. While I disagree with the BCSC proposal as described, I find encouragement in the OSC considerations and suggest all Canadian regulatory agencies support the establishment of a crowdfunding friendly marketplace in Canada.

Should any of the recipient parties or their associates wish to discuss these issues and my ideas in more detail, I would be happy to continue this conversation and contribute wherever possible to ensure we are making the right decisions for the Canadian venture capital community.

I appreciate your consideration of my feedback and trust you will deeply consider these comments before implementing any financing related concepts that may hurt the sector.

Thank you.

Sincerely,

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