

March 4, 2013
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**RE:OSC Exempt Market Review
OSC Staff Consultation Paper 45-710
Considerations For New Capital Raising Prospectus Exemptions**

The Ontario Securities Commission (“OSC”) is to be commended for taking the initiative of looking at alternative and additional forms of raising capital for Canadian companies.

The venture capital markets in Canada are at a crossroads. If we do not address the scarcity and high cost of public markets capital, the precipitous decline being experienced in the Canadian public venture markets will lead to permanent damage in the Canadian economy. The future development and creation of small cap companies in Canada is very close to tipping into the abyss.

Although increased access and ease of access to a broader base of investors is desperately needed, Crowdfunding could be a very problematic experiment if it is rushed into deployment and unleashed into a largely unregulated and unsophisticated investor market. The more responsible course to follow would be to test the concept within the regulated and transparent public venture markets. The knowledge gained from this entry point can be employed into making a broader Crowdfunding program a resounding success.

Prospectus Exemption Based on:

1) Crowdfunding

I am extremely concerned about the myriad of securities, regulatory, administrative, and compliance issues surrounding Crowdfunding. From straightforward issues such as; how will share certificates be issued or held; how will individual and cumulative investment thresholds be monitored and enforced; how will Anti Money Laundering regulations be implemented; to more complex issues regarding Uniform Shareholders Agreements; dilutive share issuances; and simply managing a shareholder base possibly in excess of 1200 shareholders.

The potential for abuse of the Crowdfunding model is enormous. The ability for unregistered individuals to sell securities in companies that have been not been subjected to any due diligence processes, to unsophisticated investors, is almost guaranteed to attract a fraudulent element. The integrity, registration, and sophistication of the Funding Portal will be critical in insuring protection for investors. The current discussions and

information regarding Crowdfunding do not provide enough in depth information defining the role and rules of the Funding Portal.

I do not think that one set of rules can be applied across the entire Crowdfunding concept. In that regard, I recommend that a Pilot Crowdfunding model be rolled out into the existing public venture markets in cooperation with the TSX Venture Exchange. (“TSXV”) I recommend that the following measures for the Crowdfunding Pilot:

- Restricted to publicly traded reporting issuers;
- Companies with market capitalization of \$250,000,000 or less;
- Maximum annual capital raised \$2,500,000
- Maximum individual Crowdfunding exempt purchase \$20,000;
- Individual income requirement of \$40,000 annual income;
- Disclosure limited to public press release of financing details and maintenance of regular securities required ongoing disclosure;
- Risk disclosure document contained within subscription agreement; and
- Registered dealer due diligence would not be required unless new directors, officers, or a change of business, major acquisition or change of control is contemplated in conjunction with the offering.

2) Investment Knowledge

This exemption will have a diminimus effect on accessing capital. My belief is that many of the people that possess the educational qualifications will already meet the existing Accredited Investor exemptions. Further, it will be very cumbersome for dealers to try and validate the education credentials claimed by individuals. This exemption is of minimal value, but I would support its implementation.

3) Registrant Advice

This exemption is impractical. I find it hard to believe that any compliance department will allow its brokers to sign a fiduciary obligation contract with a client.

Further, I am concerned if the underlying thought is that brokers can't be trusted to give useful advice if they are getting paid a commission. Is it the premise of the author of this proposal that the integrity of the advice becomes compromised when a registered individual collects a commission? If so, the author is then talking about complete structural change in our 100+-year-old industry, and I would suggest a different forum for the author to introduce his theory and concerns. The above concept is detrimental to the

entire retail brokerage sector. The independent retail brokerage firms are the lifeblood of the venture markets in Canada. If they are unable to earn income from underwriting and raising capital for venture issuers, the entire venture market will disappear in Canada.

There currently exists a desperate need for access to capital by the 2000+ TSXV listed companies. At no other time in my 19 years in the industry have I seen such a lack of capital, lack of interest, and lack of hope for the public venture capital markets in Canada. These companies have paid the enormous costs of going public, they have adhered to the regulated disclosure requirements and rules, and now they are largely unable to access the capital markets. The situation for these companies is one of near desperation.

If the TSXV remains in its downward trajectory, we will very soon reach a point where many more companies will expire. Statistics show that many companies listed on the TSXV have less than \$200,000 cash. Effectively, that means that the TSXV stands to lose many of its issuers over the next twelve months if conditions do not improve. I believe that we must react quickly to the concerns of the 2000+ job creating, economy driving, junior public companies listed on the TSXV. If we want to preserve the public venture markets in Canada, we must act now. We must reduce the cost of capital and broaden access to capital for publicly traded venture companies.

I think that it is a mistake to rush through a proposal to extend the extremely liberal regulations of Crowdfunding to the least regulated issuers and exempt individuals without adequately testing the concept first amongst publicly traded issuers. I am not dismissing private company Crowdfunding. I am recommending that we first implement it for public companies in order for us as an industry to study a live test. At the same time we can fine-tune the rules and structure for a broader Crowdfunding roll out.

It appears as though there is tremendous political pressure from the Ontario Minister of Economic Development, Brad Duguid. Mr. Duguid recently publicly stated in reference to Crowdfunding that it: "be in place before changes to U.S. laws under the JOBS Act come into force." I am unsure as to how this minister could make such a statement. Further, this is a statement that should cause one to pause and contemplate it in the context of the Ontario government's stated desire to have a national securities regulator located in Ontario. I think that it would be prudent to include Mr. Duguid in a further discussion on Crowdfunding and the Pilot proposal so that he can get a better understanding of securities regulation and the state of the public venture markets in Canada.

It does not appear that the SEC is in any rush to implement Crowdfunding. Similarly, we in Canada should also exercise prudence and look towards a regulated and measured first embrace of Crowdfunding.

Canada has the best public venture markets exchange in the world. The TSXV was created out of the need for public venture capital. The TSXV has been at the forefront of innovational capital raising programs that are admired and studied around the world. The management, staff, and advisory committees of the TSXV are second to none in

experience and knowledge of venture capital funding. The companies listed on the TSXV are true entrepreneurs in the Canadian economy. Now is the time to embrace this world-class organization and partner with it in broadening access to capital via a public market Crowdfunding pilot.*

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***The comments provided in this letter are the opinion of the writer and should not be construed to be the opinion of the writer's employer or the opinion of any committees the writer is associated with.**