

John Stevenson
Secretary, Ontario Securities Commission
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By e-mail: jstevenson@osc.gov.on.ca

Re: RESPONSE TO EXEMPT MARKET REVIEW OSC CONSULTATION PAPER 45 710:
CONSIDERATIONS FOR NEW CAPITAL RAISING PROSPECTUS EXEMPTION

Submission from Angel One Network Inc. regarding Angel Group Exemption

Angel One Network Inc. was incorporated as a not-for-profit Ontario corporation on September 2, 2011 with the support of 12 accredited investor members. Since then, Angel One has required all members and their guests to sign Accredited Investor Declarations, which are kept on file at the Angel One office. Each member also signs a Code of Conduct (Appendix) that is also kept on file.

Angel One grew its membership in 2012 to 107 accredited investors, of which 90% made individual investments into 15 companies with an aggregate value of \$6.5 million. Many of the investments made were in informal syndicates formed by members from various angel groups. Each investor was reminded in every case that they must conduct their own due diligence and make their own decision. This formula seems to be working quite well.

It is our hope that the OSC will continue to allow independent, accredited investors to provide funds and support to pre-revenue and early stage Ontario companies with a prospectus exemption.

The answers below reflect the perspective of Angel One Network Inc. with respect to the nature of angel investments.

Issuer Restrictions

1. *Should there be a limit on the amount of capital that can be raised under this exemption? If so, what should the limit be?*

No. The limit falls under the negotiation process and would reflect the needs of the issuer and risk tolerance of the accredited investor.

2. *Should issuers be required to spend the proceeds raised in Canada?*

No. The use of proceeds is focused on the growth of the business; hence geographical restrictions would not be conducive to such purpose.

Investor Protection Measures

3. *Should there be limits on the amount that an investor can invest under this exemption? If so, what should the limits be?*
No maximum amount should be established for accredited investors.
We are not commenting on crowd funding.
4. *What information should be provided to investors at the time of sale as a condition of this exemption? Should that information be certified and by whom?*
No certified information should be required. The information that is gathered and shared amongst investors is normally addressed during the due diligence process. Each investor is sophisticated and responsible for assessing their individual risk tolerance.
5. *Should issuers that rely on this exemption be required to provide ongoing disclosure to investors? If so, what form should this disclosure take?*
There is no need to add additional requirements to this matter. In every term sheet that Angel One has seen to date has included a clause regarding access to information. This should be left at the discretion of the investors.
6. *Should the issuers be required to provide audited financial statements to investors at the time of sale or on an ongoing basis? Is the proposed threshold of \$500,000 for requiring audited financial statements (in the case of a non-reporting issuer) appropriate?*
No, audited financial statements should not be required. Apart from the cost of providing such audited documents, the relevance of financial statements for pre-revenue startups is typically irrelevant. Ongoing basis financial statements are normally available to investors as covered by the Terms of the investment.
7. *Should rights and protections, such as anti-dilution protection, tag-along rights and pre-emptive rights, be provided to shareholders?*
These details should be left at the discretion of the parties involved in the Terms negotiation process as each and every transaction is unique and bares the specifics driven by the state of the business, the proceeds and the industry/sector the SME.

Angel One Investor Network would be pleased to address any further questions, comments or clarifications related to the above submission. Please contact Karen Grant, Executive Director, Angel One Investor Network:
Karen.grant@angelonenetwork.ca; mobile: 905-308-4969

Appendix

2013 MEMBERSHIP CODE OF CONDUCT

Name: _____

Address: _____

Phone: _____

Email: _____

I agree to abide by the Angel One Network Code of Conduct as stated below. I understand that I will need to renew my Accredited Investor Declaration annually. Please sign this page, scan and email only this page to karen.grant@angelonenetwork.ca.

(Signature)

(Date)

ANGEL ONE INVESTOR NETWORK

Code of Conduct

1. Consideration for membership in the Angel One Investor Network requires submission of a written accredited investor declaration annually. Membership applications will be reviewed and approved by the Angel One Board of Directors or their delegates and will be subject to periodic renewal, non-renewal, revocation, termination or suspension by said Board.

2. As a condition precedent to grant, renewal or continuation of Membership, it shall be conclusively presumed that a Member has expressly agreed to abide by the Angel One Network bylaws and this Membership Agreement, as they may be modified from time to time by the Board, and to have expressly acknowledged that

Membership may be revoked, terminated, suspended or not renewed by the Board upon the failure of the Member to do so. After any change in the Rules of Membership and Conduct, each Member must either accept the Rules of Membership and Conduct or withdraw from the Angel One Investor Network.

3. The purpose of Membership is to provide Members exposure to investment opportunities in early stage and growth companies generally located, or doing business, in the region, including specific investment opportunities presented by other Members, and to provide forums for education and active interchange of information and ideas, regarding the formation, development and financial structuring of investment opportunities.

4. Members must actively participate in the Angel One process to share in the benefits of Angel One programs and to make their participation beneficial to other Members. Members are expected to make a significant contribution to the operation of Angel One that may include actively participating in due diligence, leading an investment opportunity, identifying investment opportunities, and serving on the board of directors or board of advisors of portfolio companies.

5. Decisions regarding approval or denial of Membership to any applicant shall be governed by the Board of Directors. All decisions are final and as such not subject to appeal.

6. Membership does not create any rights for a Member to participate in any particular investment opportunity that may be the subject of a presentation or other educational meeting. Angel One has no authority or responsibility to accept or reject an investment by any Member in such an opportunity.

The issuer, in its sole discretion, may accept or reject any potential investor, based on the issuer's sole discretion and judgment as to which investors best meet its needs, and subject to other issuer's provisions or restrictions, such as minimum investment requirements and maximum investment limits. Issuer may accept other investors who are not Members.

7. Members are responsible for making individual and independent investment decisions, both as to suitability of an investment and as to amount, if any, invested based on their own individual evaluation of the merits of the proposed investment. Each Member agrees that Angel One shall have no responsibility for the accuracy, completeness or merits of the information presented or the success or failure of any investment decision made by any Member.

8. By execution hereof, each Member expressly waives any right to sue or bring any action of any sort on the basis of any Angel One related educational activity, information sharing or investment presentation, or otherwise, against any one or more of Angel One, its Board, any Member or any former Member.

9. The Board can suspend, revoke or terminate the Membership of any Member who, in the sole judgment of the Board:

- a. Fails to disclose a material fact or makes a material misrepresentation in an application for Membership, regarding any relationship with an investment opportunity or other information sharing.
- b. Has or gives the appearance of having a material conflict of interest with Angel One. Improperly discloses information presented in confidence to Members, or makes or allows to be made any material use of confidential information presented to Members for the benefit of any persons not Members, or any entity other than the discloser, in a manner that is in conflict with any of the interest of other Members, Angel One or the discloser.
- c. Improperly solicits business from Members, or makes a material misrepresentation or omits a material fact in introducing another Member to an investment opportunity that has not been presented to other Members in the context of an Angel One educational forum or presentation.

d. Behaves in a manner that materially disrupts Angel One activities or events or, in connection with any Angel One-related activities, displays anti-social behaviour toward other Members.

e. Engages in the conduct that reflects poorly on Angel One, or which is deemed by the Board to be against the best interest of Angel One.

f. Solicits or accepts any compensation for presenting an investment opportunity to, or for raising capital from, the Membership of Angel One.

10. Decisions regarding the revocation, termination, suspension or non-renewal of Membership by the Board are final and not subject to any appeal. The sole recourse any Member has over any disagreement with a Board decision, motion or action, regardless of its scope or nature, is to withdraw from Membership in Angel One Investor Network. In case of withdrawal from or termination of Membership, dues for that calendar year will be refunded to such Member, pro-rated as of the end of the calendar quarter in which such withdrawal takes place.