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May 5, 2014

**BY EMAIL**

Mr. John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West, 22<sup>nd</sup> Floor  
Toronto, Ontario M5H 3S8

**Dear Sir:**

**Re: Notice and Request for Comment - Introduction of Proposed Prospectus Exemptions and Proposed Reports of Exempt Distribution in Ontario (the “Proposed Exemptions”), Supplement to the OSC Bulletin, dated March 20, 2014, Volume 37, Issue 12 (Supp-3) (2014), 37 OSCB**

We are responding to the Ontario Securities Commission (the “OSC”) Notice and Request for Comment published March 20, 2014 regarding the Proposed Exemptions. We are pleased to have this opportunity to participate in the review process by submitting our comments below.

We understand that a cooperative securities regulator is being created which will harmonize the securities policies between the provinces of Ontario and British Columbia. Given that the Proposed Exemptions may be adopted in British Columbia, we write to express our concern with respect to the Proposed Exemptions as they relate to mortgage investment entities (each, an “MIE”).

We operate an MIE in British Columbia and we have regularly raised capital to operate our business in reliance on the offering memorandum prospectus exemption provided by NI 45-106 and the registration exemptions available to MIEs provided by BCI 32-513 and BCI 32-517. We are disappointed to discover that the offering memorandum exemption (the “**OSC OM Exemption**”) contained in the Proposed Exemptions will prohibit MIEs who are registered as exempt market dealers (each, an “**EMD**”) from selling securities of a related entity (the “**Related Issuer Prohibition**”). As you are aware, there is currently no Related Issuer Prohibition applicable to MIEs in British Columbia and the absence of such a prohibition has helped to connect MIEs with prospective investors, thereby promoting market efficiency. The imposition of a Related Issuer Prohibition on MIEs will unnecessarily hinder the efficiency with which MIEs raise capital. Moreover, forcing investors to invest through an arm’s-length EMD has the

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potential to increase costs and diminish returns on investments which may not be in the best interests of investors.

We are also disappointed to discover that the OSC OM Exemption imposes investment limits (the “**Investment Limits**”) of any kind, let alone limits as low as \$30,000 per year for eligible investors and \$10,000 per year for non-eligible investors. If the proposed OSC OM Exemption is adopted in Ontario as drafted, and ultimately adopted in BC with the advent of the cooperative securities regulator, it will negatively impact our capital raising efforts in a significant way.

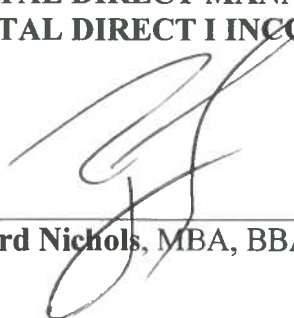
While we can understand the concerns raised by the OSC in the Proposed Exemptions, we take this opportunity to remind the OSC that MIEs in British Columbia have for many years made extensive use of the offering memorandum exemption provided by subsection 2.9(1) of NI 45-106 - *Prospectus and Registration Exemptions* (the “**BC OM Exemption**”) without the need for a Related Issuer Prohibition or Investment Limits, and reliance by MIEs in British Columbia on the BC OM Exemption has not resulted in the kind of abuses that have otherwise occurred in the exempt market.

While we support the initiative to create a cooperative securities regulator in Ontario and British Columbia, we cannot do so at the expense of losing effective prospectus exemptions available to MIEs in British Columbia. We encourage the OSC to harmonize their proposed offering memorandum exemption in line with the BC OM Exemption, or to provide relief to MIEs from the requirement to comply with the Related Issuer Prohibition and the Investment Limits when using the OSC OM Exemption.

Thank you for allowing us the opportunity to comment.

Yours truly,

**CAPITAL DIRECT MANAGEMENT LTD., as manager of  
CAPITAL DIRECT I INCOME TRUST**



Richard Nichols, MBA, BBA, AMP