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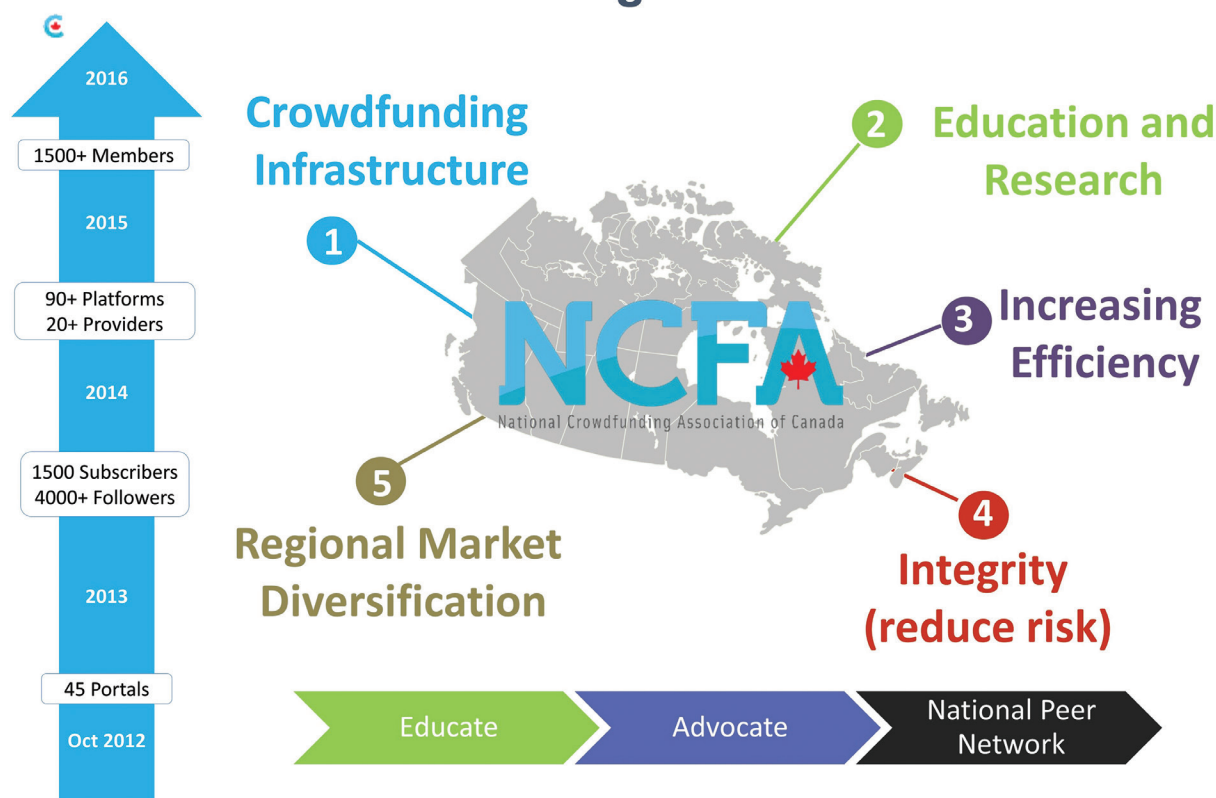
2016

Alternative Finance Crowdfunding in Canada

Unlocking real value through fintech and crowd innovation

Leading Sponsors

National Crowdfunding Association of Canada



The National Crowdfunding Association of Canada (NCFA Canada) is the only trade association actively engaged with both social and investment fintech crowdfunding and alternative finance stakeholders across the country. NCFA Canada provides education, research, leadership, support and networking

opportunities to over 1500 members and works closely with industry, government, academia, community and eco-system partners and affiliates to create a strong and vibrant crowdfunding industry in Canada.

Learn more at <http://ncfacanada.org>.

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Quotes



The table is set and now is the time for investors and the full breadth of the regulatory and financial ecosystem to embrace an inevitable movement with purposeful impact on the future of financial services; one where emerging ventures and investors are able to efficiently and competitively participate in raising capital online, P2P lending and direct investments in Canada. We should be strengthening confidence in small business feeder markets, incubating a new generation of innovation and capable stakeholders, removing regulatory and administrative obstacles to growth, innovation and job creation opportunities, or risk a steady drain of brains, capital, and social economic advantages built up over the past 150 years. Kudos to the 'open minds, and front

running leaders who understand the importance and unlimited potential inherent in Canada's most diverse and valuable resource – THE PEOPLE. – [*Craig Asano, Founder & Executive Director, NCFA Canada*](#)

Across the globe, traditional financial institutions have left consumers behind, focusing on profits above customer service. This has created a clear opportunity to revolutionize the outdated banking system and secure a better deal for all parties involved. New forms of finance have been empowered by consumer driven online marketplaces (i.e. crowdfunding) which has led to the creation of countless new opportunities in the financial sector. Importantly, these crowd-based innovations don't

just improve customer experience, they actually result in a better deal for consumers and businesses. One of the clearest examples of the peer-to-peer lending model - which is facilitating access to finance for millions of small businesses across the globe while simultaneously helping to grow the wealth of middle class investors. Ultimately, what all of this will lead to, if properly regulated and supported by governments, is the creation of real sustainable growth in our economy. – *Cato Pastoll, Co-founder and CEO, Lending Loop*

I believe that we will see the emergence of many new funding mechanisms for new ventures. This will increase access to capital for entrepreneurs while at the same time giving investors more investment options. – *Mike Volker, Director, VANTEC Angel Network*

As we've seen with the intersection of the Web with many other industries, it isn't a matter of if Securities-based Crowdfunding and online finance comes online but when. Now that data is available to start showing the logical flow of capital from investors to promising community-based businesses via securities that match both entrepreneur and investor needs governments are playing fast follower. There will be a time when online fundraising is the norm and it won't be a matter of decades but years. The time is now for Canada to join the rest of the world. – *Sherwood (Woodie) Neiss, Principal, Crowdfund Capital Advisors, LLC*

Crowdfunding presents a tremendous opportunity for Canadians to come together and fund all manner of worthy economic initiatives. It is incumbent on our government and market regulators to find ways to create a level national playing field that enhances the competitiveness of the Canadian crowdfunding

industry. Unfettered investment at the individual level, regardless of physical geography, is both our present and our future. Our market regulators would do well to legitimize this behaviour and harmonize rules across geographic regions and within Canada at the very least. – *Christopher Charlesworth, CEO/Co-founder, HiveWire*

Equity crowdfunding empowers everyone to invest in young companies that they believe in. Democratizing investing, sharing both risk and returns within the community and ultimately driving entrepreneurship, innovation and jobs. However the provincial securities regulators in Canada created a fragmented framework of crowdfunding rules that undermines effective capital formation. It causes confusion and frustration for all market participants, young companies looking to raise capital, investors and even some securities lawyers. "Harmonization of rules will be key for Canada to take full advantage of equity crowdfunding as a new way of financing private companies and engaging the wider investor community." – *Peter-Paul Van Hoeken, Founder & CEO, FrontFundr*

Crowdfunding is a phenomenon and not a fad. Issuers and securities dealers are already integrating this channel into their overall finance strategy and are using it as a way to better connect and identify with their target markets. The advent of specialized investment platforms, innovative technologies and evolving approaches for the regulation of online investment portals (including new securities law exemptions and OSC's Launch Pad), have set the nascent crowdfunding industry on the right path for the future. – *Jason Saltzman, Partner, Dentons Canada LLP*

Donation and reward-based crowdfunding markets in Canada continue to show impressive year over year growth. It's clear that it's not only here to stay but is becoming the defacto means for both entrepreneurs to fund their new products and non-profits to fund their missions. We can expect to see significant continued growth in the volume of projects funded and the diversity of project types in the next year. –

Daryl Hatton, Founder and CEO, FundRazr

Crowdfunding is here to stay. Its transformational effect is already being felt by small businesses and fast-growing Start-ups across the world. The consequences of accepting or thwarting it are incredibly consequential for the economy, particularly small businesses that are the engine of growth and employment in countries such as Canada, the US and the UK. A Canada-wide harmonisation of innovation friendly laws and regulations is now needed to make crowdfunding a valuable part of the country's financial ecosystem. –

Bundeep Rangar, CEO, Fineqia

Often times investors think of crowdfunding as something unregulated but that's far from the truth. The fact is that it is highly regulated and offers a much higher level of transparency to the investor. An investor is able to do all of their due diligence online in a convenient manner rather than having the pressure of a sales person pushing them to invest into a particular investment. The crowd needs education and awareness. And that takes time but the use of technology to execute on investments is something that will grow exponentially over time. –

Amar Nijjar, CEO & President, R2Crowd

Every year, more money is raised in the private, exempt capital markets in Canada than is raised on the TSX and TSX-V combined. Yet access to those

deals and opportunities remains relationship driven, and distribution is limited to an opaque network of individuals and institutions who are brought in on an ad hoc basis. Meanwhile, entrepreneurs and issuers spend significant resources sourcing capital and lack a simple way to tell their story to the investment community at large. Crowdfinancing is the opportunity to leverage the power of the internet to finally bring some efficiency, transparency and democracy to fundraising in Canadian private capital markets for the benefit of both sides of the marketplace: issuers and investors. –

Rubsun Ho, Chief Crowdfleaser, Crowdmatrix Inc.

While it's clear that crowdfunding makes badly needed new capital available for young companies, there's another critical benefit that we sometimes forget. Many of the crowdfunding campaigns run by start-ups serve as critical tests of product/market fit. Besides raising the money needed for product development, the pre-sales that result are some of the best possible proof points that a product is in demand. A successful crowdfunding campaign is important evidence that a business is worth pursuing, even before a product hits the market. This can give entrepreneurs, their investors and their future customers heightened and greatly welcomed confidence. –

Bernd Petak, Investment Partner, Northmark Ventures

Crowdfunding represents a fundamental refashioning of our private capital markets offering entrepreneurs and businesses the opportunity to raise capital directly from the public. However, Crowdfunding is more than just a means of raising capital and creating jobs. It has the potential to foster a culture of innovation, entrepreneurship and appreciation for higher education. This

democratization of new venture financing will afford underrepresented minorities, women and rural SME's whom historically received limited venture or angel funding a fair opportunity to raise capital and turn ideas into businesses. Funding portals globally have proven to be a much needed addition to the private markets promoting greater transparency, efficiency and regulatory compliance. The success of crowdfunding will depend largely upon national and regional regulators appreciating its profound significance to SMEs and their continued commitment to working with industry participants to educate the public and foster an orderly, transparent and efficient marketplace. – *George S. Georgiades Esq., Georgiades & Associates*

Equity crowdfunding finally gives investors the ability to access not only young businesses but more importantly the best performing investments that have been exclusively held by institutions -- pre-IPO private growth equity rounds of companies like Uber, Spotify and AirBnb. Using crowdfunding

laws combined with pooling investment capital from individuals -- allows for large multimillion dollar investment checks and access to the same companies institutions invest in. – *Marcus New, CEO InvestX Capital*

Alternative finance portals will increasingly provide a viable channel for cross-border investment seeking access and higher returns than traditional options like mutual funds. Big data, enhanced transparency and local and global white label infrastructure will spur growth for compliant, international transactions in new forms of investment. Canada is well positioned to leverage this emerging global capital flow given the evolving financial and software acumen, ability to buffer foreign exchange dynamics and the large foreign inflows already taking place in sectors like real estate. Canada has a real opportunity to take the lead, regulators willing, as other countries turn inwards due to the prevailing political winds. – *Bret Conkin, Chief Evangelist, Crowdfund Suite*



[Foreword]



On behalf of the National Crowdfunding Association of Canada (NCFA), we are pleased to release this groundbreaking report on the state of the alternative finance crowdfunding industry in Canada. Crowdfunding is on its way to being an integral part of the capital raising ecosystem with innovative and emerging fintech infrastructure, a growing number of investment platforms and licensed dealer-brokers that can service a steady flow of start-ups and scale-ups interested in raising up to \$5M of capital online to launch, grow, and commercialize ventures.

This is the inaugural report of NCFA's annual exercise in providing Canadian benchmarks for market size, platform characteristics and funding transactions, as well as an overview of legal considerations, the

regulatory environment and emerging market trends and developments in what is arguably one of the most innovative financing tools of our generation. Crowdfunding combines technology, the internet and the power of the 'crowd' to streamline the process of raising capital from a full spectrum of investors while filling an underserved funding gap in venture markets.

Kind Regards,

A handwritten signature in black ink, appearing to read 'C. Asano'.

Craig Asano
Founder & CEO
National Crowdfunding Association of Canada



Primary Research Team:



Craig Asano: Entrepreneur, Investor and Founding Executive Director of the National Crowdfunding Association of Canada (NCFA)



Anh Dao: Consultant and Researcher, specializing in Supply Chain Management and International Strategy



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Douglas Cumming: Professor of Finance and Entrepreneurship and the Ontario Research Chair at the Schulich School of Business, York University.



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Methodology: The primary data was collected by the NCFA using survey methodology. The survey was conducted in the fourth quarter of 2015 and lasted for 1.5 months. The questions were developed based on academic literature and in consultation with industry experts. The primary purpose of the Canadian platform survey was to form a basis for the NCFA annual report of market size, growth and platform characteristics in Canada from 2013 to 2016. The questionnaire was sent to 80 funding portals across all business models including donation-rewards, equity, lending/debt and other hybrids of which 51 responded. The respondents provided actual data for the year 2013, 2014 and the first two quarters of 2015. The rest of the 2015 data was extrapolated by the research team. The survey participants also indicated their predicted values for the year 2016, which was used in this report.

Table of Contents

01	Executive Summary	12
02	Alternative Finance Crowdfunding in Canada	16
03	Regulatory Landscape	30
04	Emerging Trends and Perspectives	42
05	Case Studies	54
06	Market Size and Prediction	62
07	Funding Platform Characteristics	72
08	Transactional Framework for Success	96
09	Critical Risks to Market Formation and Growth	108
10	Wake-up Call: To Compete or Not Compete?	114

1. Executive Summary



Market Volume

Crowdfunding volumes in Canada reached \$133 million in 2015 confirming that it is a genuine source of seed and growth capital for companies seeking funding but it is growing much slower than Canada's leading international comparators:

- Crowdfunding is an emerging financing alternative for small businesses and new ventures to raise up to \$5M of capital from investors and funding groups by leveraging the internet, financial technology and social media.
- Crowdfunding drives innovation, jobs and entrepreneurship and enables more liquidity and transparency to venture markets. It's complimentary to the financial ecosystem including everything from angels to venture capital and works to strengthen other segments of the early stage capital market.
- Crowdfunding has become an active and viable alternative finance industry that can contribute to an economy's competitive advantage.
- NCFA's Directory tracks 100 online funding platforms with in Canada with the majority being donation/reward-based (62), followed by equity portals (18) and then lending (8).
- Canadian markets are growing and reported a total funding volume of \$133 million in 2015 and are predicted to grow to \$190 million in 2016. Non-regulated donation and reward

models represent the largest volume of the market, which is 'inverted' compared to what is happening internationally.

- The top 5 Canadian cities launching projects on Indiegogo and Kickstarter between 2009 and 2014 were: Toronto (667), Vancouver (417), Montreal (354), Calgary (137), and Ottawa (119).
- Canada is punching below its weight compared to international markets. A recently published study by the University of Cambridge and partners benchmarked the U.S. online alternative finance industry at \$36 billion in 2015 (see Figure 3: US Online Alternative Finance Total Volume)¹.
- Regulation crowdfunding in the United States (Title III of the JOBS Act which refers to investment offerings open to the retail public) has recorded total capital commitments of approximately \$16 million USD from May 16 to Nov 28, 2016 showing a logical progression of the U.S. retail market.



Market Formation

Market formation trends based on survey response data indicate that the industry is evolving with larger platforms emerging and an increasing number of issuers and backers entering the market:

- An increasing larger percentage of platforms raise more than \$1.5 million per year. The data shows a growing size of the overall market as well as the emergence of platforms handling larger funds.
- 42% of the portals indicated that they are involved some level of cross-border activity with individual donors, companies seeking

to raise capital from abroad or foreign investment/backers for the portals themselves.

- Businesses at different stages from start-up to scale-up have achieved funding success. All these findings make for a strong argument that there is a pressing need for public education on crowdfunding to guide businesses and increase the financial literacy of prospective investors.
- From 2013 to 2015, there was a big increase in the number of platforms with more than 300 issuers seeking to raise money.
- The funding duration of the majority (70%) of successful projects took between 7-12 weeks.
- 23% of portals reported that more than 50% of successful funded projects are led by women.
- There was an increase in the percentage of platforms having more than 2,500 investors per year with 60% of the portals reporting between 1001-5000 investors on their platform in 2015. Most investors are retail investors/contributors, indicating a concrete public interest in this industry.



Trends & Developments

The industry is diverse, encompassing many positive trends and emerging developments:

- Market infrastructure is coalescing with more portals, white label providers, and stakeholders on both buy and sell sides of the market creating a range of innovation finance, technologist, data analyst, marketing automation and business development jobs in the industry.
- Crowdsourcing platforms (ie., Uber, GoFundMe, Craigslist etc.) are creating several multi-billion dollar business models and replacing

¹ https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-americas-alternative-finance-benchmarking-report.pdf

everything from actual marketplaces, to letters of introduction, methods of putting forth 'the ask', and now investment participation.

- P2P and marketplace lenders are disrupting credit markets by connecting investors to borrowers online, representing a fundamental shift in how loans are funded and originated, and are paving the way for a new generation of innovative online lenders.
- Industry niches such as real estate crowdfunding are growing rapidly in the U.S. (\$3 billion in 2015) and are beginning to gain attention here in Canada.
- Raising funds for start-ups or innovations where there is no cash flow in the business continues to be a challenge in rural areas. Community Futures² (who provides small business services to rural communities) would like to launch a joint venture with government approved agencies and others in a national initiative, portal and/or shared service, to lead community based investment that would fill this gap.
- Blockchain and crypto are empowering a new form of online capital aggregation not issued by a nation-state called Initial Coin Offerings (ICOs) or 'crowdsales'.
- The Ontario Securities Commission (OSC) has adopted Canada's first regulatory innovation hub called the OSC Launchpad to support innovative fintech businesses.
- Royalty-based crowdfunding is gaining popularity as an innovative funding model where companies give up a percentage of their future revenue in exchange for scale-up capital.
- The first fully dedicated academic course on crowdfunding will be delivered in the winter 2017 term at Sheridan College in Ontario.

Uniform & Competitive Rules

The success of alternative finance investment crowdfunding markets in Canada is in the hands of the regulators. For regulated crowdfunding markets to efficiently develop, regulators are encouraged to support market formation and the ability to scale online capital while avoiding stifling the market before it's had a chance to compete:

- Remove unnecessary burdens and harmonize confusing regulations to allow funding portals to develop sustainable and growing businesses with meaningful margins.
- Ensure regulations are competitive across domestic prospectus exemptions and international standards, such as in the United States which is implementing a special framework to support online capital raising. This includes reviewing the high compliance burden relative to the size of capital being raised with online models and non-competitive advertising and solicitation restrictions.
- Ensure a level playing field exists in the marketplace and avoid granting one off exemptive relief to one online platform and not another.
- Support data sharing, transparency and educational and awareness initiatives. To do this, governments can facilitate the industry's own efforts to improve the financial literacy of all parties in crowdfunding including SME's seeking capital, potential investors and entrepreneurs considering setting up portals.

² <http://communityfuturescanada.ca/>

In summary, while Canada has made significant investments to establish competitive start-up and emerging scale-up infrastructure, and there is committed entrepreneurial and technical talent on the ground, there is a resource and funding gap that limits Canada's ability to create a strong and confident feeder market system that works in sync to commercialize ideas and innovations to the fullest extent possible. Alternative finance crowdfunding

markets can fill early stage funding gaps and strengthen the quality and quantity of both capital supply and the entrepreneurial and innovation ecosystem. It's time for investors, government, financial institutions, and Canadians to 'back' this industry enabling more financing options and liquidity to market, more foreign capital inflows and help Canada compete globally in the 21st century while creating jobs and economic growth.



2. Alternative Finance Crowdfunding Overview



What is Crowdfunding?



History, Global Market Traction



Who is it for?



Why is Crowdfunding Important to Canada?



What does it mean for Companies?



What does it mean for Investors?



What does it mean for Government?



2.1 What is Crowdfunding?

Emerging Online Funding Platforms:

Crowdfunding is an emerging financing alternative for small businesses and new ventures to raise funds through the collection of small amounts of capital from an online community of investors and funding groups (collectively known as 'the crowd') by leveraging the power of the internet, financial technology and social media. While the non-profit sector was the first to successfully employ crowdfunding in its present online form, rapidly advancing technologies, a well-documented early stage funding gap, evolving client (companies and investors) expectations and a changing regulatory landscape are opening doors to financial services innovation (or 'innovation finance'). From equity crowdfunding to blockchain and cryptocurrencies to equity crowdfunding to peer-to-peer lending, crowdfunding is poised to play an important part of the future of financial services and is an integral

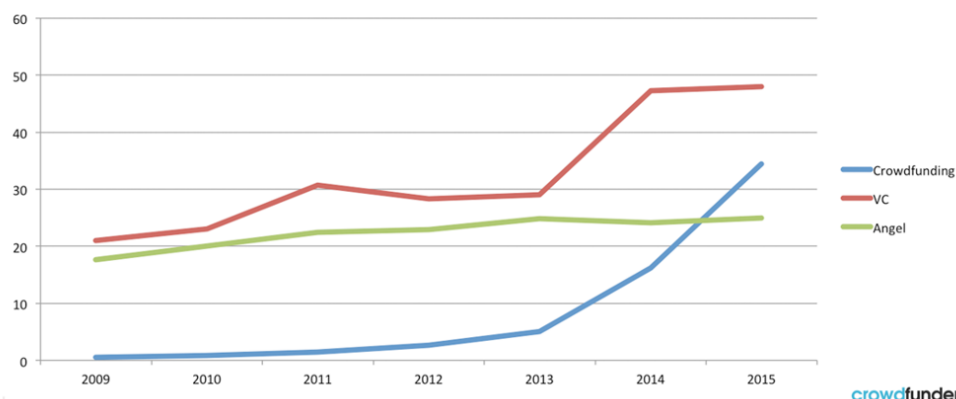
part of the "fintech" movement according to the World Economic Forum³, which has captured the attention of customers, investors, regulators and existing financial institutions and incumbents around the world.

Portal Definition: A crowdfunding portal, used interchangeably with crowdfunding platform (referred to as Portal or Platform or Marketplace), is a dedicated website and intermediary that facilitates funding transactions between individuals/companies seeking capital (also referred to as "issuers" (of a security) or campaign/project owners), and those providing capital known as 'backers' (investors, donors or lenders depending on the crowdfunding model). Both regulated portals and non-regulated portals exist in the marketplace today (see Regulatory Landscape for Raising Capital Online).

PART OF THE CAPITAL STACK: Crowdfunding isn't a stand alone funding source. Crowdfinance includes retail, angels and VC participation too
One big difference... *Funding platforms are evolving & can scale*

– Chance Barnett, CEO of [Crowdfunder](#)

Annual Funding (Billions): VC vs. Crowdfunding vs. Angel



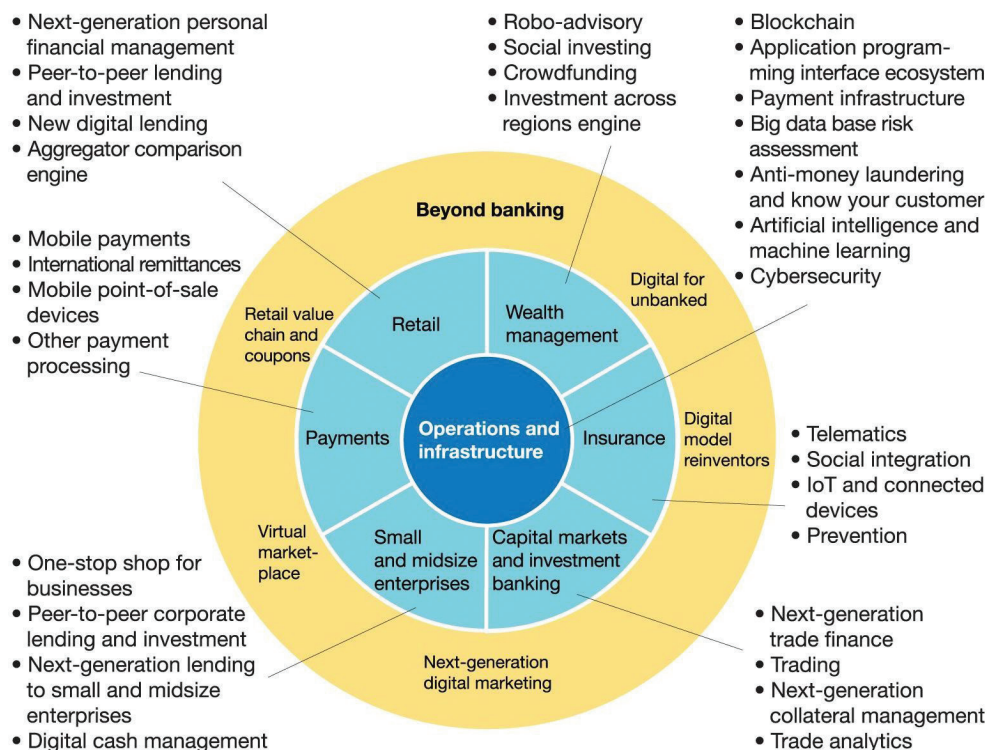
³ http://www3.weforum.org/docs/WEF_The_future_of_financial_services.pdf

Evolving Marketplaces: Since the word “crowdfunding” was officially included in the Merriam Webster’s Collegiate Dictionary in 2014, the term has been the source of some confusion due to the rapidly changing nature and usage of the term crowdfunding. Today, the potential of crowdfunding is largely linked to the process of raising capital via online platforms that serve as market conduits and work to connect companies (and individuals) with a wide range of capital providers including the general public, retail investors, accredited investors (or angels), venture capital firms and financial institutions. Online funding platforms that support both buy and sell sides of early stage venture markets are evolving. Private capital markets along with private investment are moving online. Many industry experts will attest

to the fact that while alternative finance was initially a seed stage effort, it is now supporting other stages of the funding cycle and, as such, can be disruptive to later stage participants such as traditional financial institutions.

Intricately Linked to Fintech: According to McKinsey & Company, crowdfunding and peer-to-peer trends are intricately part of many aspects of fintech that are driving critical changes due to shifting market conditions, new regulations and changes in consumer demands and behaviours including capital markets, wealth management, next generation peer to peer platforms and the aggregation of small to medium-size enterprise financial services.⁴

Key fintech trends



McKinsey&Company | Source: Panorama by McKinsey

⁴ <http://www.mckinsey.com/industries/financial-services/our-insights/bracing-for-seven-critical-changes-as-fintech-matures>



2.2 History, Global Phenomenon and Market Traction

A series of international and domestic legislative and regulatory changes have led to the present state of crowdfunding in Canada. Although Canada was not at the forefront of the crowdfunding initiative, many provincial securities commissions have worked to make regulatory changes relatively quickly to ensure Canadian capital markets can hold its own with respect to this new innovative financing source.

The following is a chronology of a few key events that led to crowdfunding in Canada.

April 5, 2012: President Barak Obama signed into law the Jumpstart our Business Start-ups Act (JOBS Act) with bipartisan support intended to encourage more funding for small businesses by easing various securities regulations.⁵

May 2012: U.S. research firm Massolution released its inaugural global crowdfunding industry report that benchmarked the total funding volume across regulated and non-regulated models at \$1.5 billion. A plethora of aspiring entrepreneurs and investors around the world enthusiastically launched new portals in effort to capitalize on emerging opportunities to facilitate capital raising between those seeking and deploying capital.

October 3, 2012: The National Crowdfunding Association of Canada (NCFA) was launched as a newly formed Canadian non-profit organization created to fill a need to unify a crowdfunding voice of the various industry groups, associations and affiliations into a single national organization and

to provide a forum and network for all businesses, industries and stakeholders across Canada interested in crowdfunding.⁶

December 14, 2012: The Ontario Securities Commission (OSC) released a staff paper 45-710 and officially launched a full Exempt Market review by hosting several stakeholder consultation sessions throughout Ontario.⁷

February 2013: The International Organization of Securities Commission's (IOSCO) research department released a report that stated that while the crowdfunding market is small, it is growing fast. This report also noted that given "the focus of policy makers and regulators on growth and funding of the real economy", this segment of the financial industry has the potential to develop into a credible investment option for sophisticated and retail investors alike."⁸

March 9, 2013: NCFA submitted a response to OSC Staff Paper 45-710 and established 8 equity crowdfunding implementation principles:



⁵ https://en.wikipedia.org/wiki/Jumpstart_Our_Business_Startups_Act

⁶ <http://ncfacanada.org/oct-3-2012-national-crowdfunding-association-of-canada-launches/>

⁷ <http://ncfacanada.org/osc-staff-consultation-crowdfunding-questions/>

⁸ <http://ncfacanada.org/crowdfunding-poses-benefits-risks-iosco/>

NCFA CROWDFINANCE IMPLEMENTATION PRINCIPLES

Harmonious	Collaborative development
Inclusive	All sectors and industries
Transparent	Disclosure rule Crowd intelligence
Adaptive	Innovative market adaptation
Robust	No jurisdictional restrictions
Additive	New channels and source of funds
Protective	Investment caps Due diligence

April 2013: The U.S. research firm Massolution released an updated global crowdfunding report and stated that the industry has grown to \$2.7 billion in 2012 across 1.1 million funding campaigns.

June 11, 2013: NCFA organized its first event at the Digital Media Zone titled 'Crowdfunding for Canadian Start-ups, Entrepreneurs, Charities & Enterprise' to a crowd of 80+.⁹

October 2013: The World Bank released a report that predicted the global industry will grow into a \$96 billion industry annually by 2025¹⁰. The report stated that "Today more than 80 percent of the world's online population interacts with social networks on a regular basis, despite the fact that 65 percent of the world's population, 4.6 billion people, still lack Internet access (McKinsey Global Institute 2012). Technology-enabled communities, that is, online social platforms that bring the speed, scale, and economies of the Internet to social interactions, have grown to more than 1.5 billion members globally (Curtis, Conover and Chui 2012).

December 6, 2013: Saskatchewan's Financial and Consumer Affairs Authority (FCAA) approved Canada's first equity crowdfunding exemption referred to as the 'Start-up exemption' and stated "We know that the current rules for selling a stake in a company can be expensive, complicated and time consuming for small businesses or start-ups." FCAA Chair and CEO Dave Wild said "Equity crowdfunding will help fill the fundraising gap for these businesses so that they can compete in our market. This is also an opportunity for Saskatchewan people to invest in Saskatchewan businesses – it's a unique opportunity to help grow our provincial economy."

April 11, 2014: Canadian Crowdfunding Directory tracked 73 donation/reward platforms, 5 equity and 16 service providers.

November 7, 2014: Nesta, an innovation and research foundation in the UK, conducted a wide scale study examining U.K. alternative finance sector including crowdfunding and P2P lending. Nesta confirmed that the U.K. market was growing rapidly and more than doubled year over year from

⁹ <http://ncfacanada.org/event-toronto-june-11-2013-crowdfunding-for-canadian-start-ups-entrepreneurs-charities-enterprise/>

¹⁰ <http://ncfacanada.org/its-here-the-world-bank-report-on-crowdfunding/>

£267 million in 2012 to £666 million in 2013 and was expected to reach £1.74 billion in 2014.¹¹

March 31, 2015: Massolution released global crowdfunding industry research for 2014 calendar year. Markets blossomed to \$16.2 billion (187% increase from 2013) with North America remaining the largest market and Asia outpacing Europe and growing significantly. The specific growth rates were as follows:

- North America: crowdfunding volumes grew 145% to \$9.46 billion
- Asia: crowdfunding volumes grew 320% to \$3.4 billion
- Europe: crowdfunding volumes grew 141% to \$3.26 billion
- South America, Oceania and Africa crowdfunding volumes grew 167%, 59% and 101%, respectively.

The growth in funding volumes continued to be primarily driven by lending-based crowdfunding, but significant annual growth in equity-based crowdfunding and increased adoption of newer hybrid and royalty-based models indicated that the allocation of funding volume across different models would be more highly distributed over the coming years:

- Lending-based grew 223% to \$11.08 billion
- Equity-based grew 182% to \$1.1 billion
- Hybrid-based grew 290% to \$487 million
- Royalty-based grew 336% to \$273 million
- Donation- and Reward-based crowdfunding grew 45% and 84%, respectively.

May 14, 2015: The securities commissions of British Columbia, Saskatchewan, Manitoba, Québec, New Brunswick and Nova Scotia (the “participating jurisdictions”) announced they would implement registration and prospectus exemptions that would allow start-ups and earlystage companies to raise capital through crowdfunding in these jurisdictions, subject to certain conditions (Start-up Crowdfunding Exemption, multilateral CSA Notice 45-316).¹²

November 10, 2015: The forward thinking UK Financial Conduct Authority (FCA) announced plans for the first regulatory sandbox, a program that developed out of Project Innovate (Regulator Innovation Hub) where emerging innovative businesses can work alongside FCA regulators to introduce innovative financial products and services to the market to foster competition and growth in financial services by supporting both small and large businesses that could genuinely benefit customers. This allowed the market to foster regulated and non-regulated innovation with the support and experience of regulators.¹³

December 2015: IOSCO conducted a crowdfunding survey of 23 members with the goal of enhancing its understanding of current and regulatory investment crowdfunding regimes and highlight emerging trends and issues. The report confirmed that most regulatory regimes were in “early days”. IOSCO expressed the need to strike the right balance between promoting crowdfunding to become an efficient capital formation alternative while providing sufficient investor protections and market integrity.

¹¹ <http://ncfacanada.org/understanding-alternative-finance-the-uk-alternative-finance-industry-report-2014>

¹² <http://www.newswire.ca/news-releases/certain-canadian-securities-regulators-to-adopt-start-up-crowdfunding-exemptions-517717671.html>

¹³ <https://www.fca.org.uk/publications/documents/regulatory-sandbox>

January 25, 2016: The securities regulatory authorities in Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia (collectively, the participating jurisdictions with Saskatchewan pending) published in final form Multilateral Instrument 45-108 *Crowdfunding*, which introduces a crowdfunding prospectus exemption for issuers as well as a registration framework for funding portals.¹⁴

February 2016: The University of Cambridge Centre for Alternative Finance (AltFi) and Nesta released a report entitled ‘Pushing Boundaries’, in partnership with KPMG. This report stated that the U.K. Alternative Finance industry grew 84% to 3.2 billion pounds in 2015. These measures of industry growth include all forms of internet finance such as peer to peer lending and crowdfunding.¹⁵

March 3, 2016: NCFA Canada hosted the 2nd Annual Canadian Crowdfunding Summit at MaRS Discovery District in Toronto to a capacity crowd of 450 participants.¹⁶

April 2016: The University of Cambridge in partnership with KPMG released a ground-breaking report titled “The Americas Alternative Finance Benchmarking Report” that states the total transaction volume in 2015 was \$36.17 billion with the U.S. the world’s second largest online alternative finance market behind Mainland China. “The emergence of new FinTech companies will continue to transform the financial services sector. The pace of disruption is sure to accelerate, forging the need and appetite for collaboration among incumbents and non-bank innovators.”¹⁷

July 26, 2016: Alberta Securities Commission (ASC) adopted a Prospectus Exemption for Start-up Businesses (ASC Rule 45-517)

October 24, 2016: The Ontario Securities Commission LaunchPad opened its doors. This is the first dedicated team formed by a securities regulator in Canada to help fintech businesses navigate securities law requirements and accelerate time-to-market.



¹⁴ <http://ncfacanada.org/breaking-news-nov-5-2015-regulators-including-osc-adopt-crowdfunding-exemption-and-registration-framework-for-funding-portals/>

¹⁵ <http://ncfacanada.org/uk-alternative-finance-grows-by-84-to-3-2-billion-in-2015/>

¹⁶ <http://ncfacanada.org/event-wrap-up-2016-canadian-crowdfunding-summit-on-march-3/>

¹⁷ <http://ncfacanada.org/online-alternative-finance-market-in-the-u-s-surges-to-more-than-36-billion-in-2015-kpmg-report-2/>

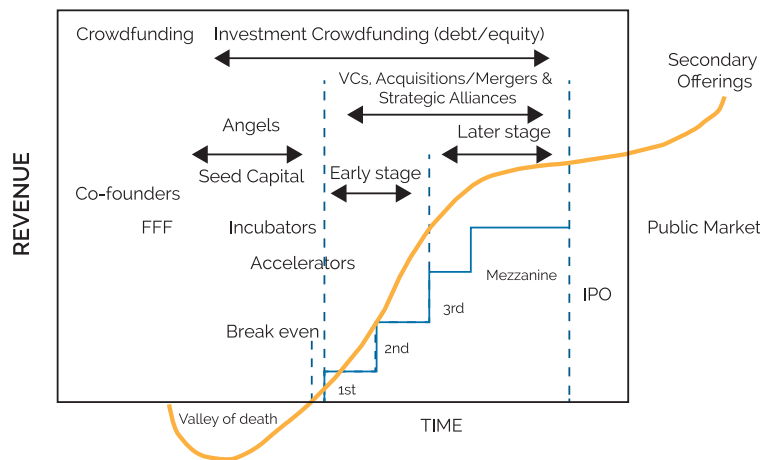


2.3 Who is it for?

Globally, crowdfunding markets are currently being used by a wide range of individuals, organizations and businesses to raise small amounts of capital (e.g., up to \$5 million) to launch and scale innovative

projects, community development initiatives, real estate projects and start-up/scale-up ventures of all kinds including for profit and not-for-profit.

Startup Financing Cycle



To obtain a sense for the type of companies that use equity crowdfunding channels to raise capital, a portfolio analysis of 253 successful equity deals between mid-2012 and 2015 on U.K. equity crowdfunding platform, Seedrs, revealed the following:

1. **Successfully funded projects** on the platform have a slightly digital and consumer-orientation:
 - Digital (40%), Non-Digital (20%) and Hybrid (40%).
 - B2C (60%), B2B (20%), and Hybrid (20%)
2. **Top 3 sectors receiving funding of a total of 15 categories:**
 - Food & Beverage (11%)
 - Finance & Payments (11%)
 - Travel, Leisure and Sport (10%)

3. Investor returns:

- Achieved an Internal Rate of Return (IRR) of 14.44%
- This percentage increased to a 41.87% return if adjusted for tax relief programs supported by the U.K. government of which the majority of successful investment crowdfunding market activity relies on programs, such as the Seed Enterprise Investment Scheme (SEIS) for Start-ups and Enterprise Investment Scheme (EIS) for scale-ups. Furthermore, it's worth noting that investors with 20+ investments overall outperformed all other investor classes based on quoted returns.
- The obvious should be stated here that investing in Start-ups is risky and crowdfunding investments are no different. Investors understand their risk tolerance, never invest

funds that they cannot afford to lose nor invest more than a 10% maximum over their discretionary investment portfolio.

In donation and reward-based crowdfunding markets, an analysis of Indiegogo and Kickstarter top funding categories between 2009 and 2014 (dataset provided by HiveWire, a Canadian-based research and industry consulting group¹⁸) concluded that the top 10 categories (of a total of 31) successfully funded were:

- | | |
|--------------|-------------------|
| 1. Community | 6. Small Business |
| 2. Film | 7. Technology |
| 3. Music | 8. Theater |
| 4. Health | 9. Art |
| 5. Education | 10. Animals |

Furthermore, the top 5 Canadian cities launching projects on Indiegogo and Kickstarter during the same period were:

1. Toronto (667)
2. Vancouver (417)
3. Montreal (354)
4. Calgary (137)
5. Ottawa (119)

Kickstarter, one of the world's most successful reward-based platforms for innovative and creative projects) with almost 115,000 successfully funded projects, has raised over \$2.7 billion as of Nov. 2016 and is one of the few portals that openly shares funding data on their blog indicating the following top ten categories:

CATEGORY	SUCCESSFULLY FUNDED PROJECTS	< \$1,000 RAISED	\$1,000 - \$9,999 RAISED	\$10,000 - \$19,999 RAISED	\$20,000 - \$99,999 RAISED	\$100K - \$999,999 RAISED	> \$1 M RAISED
All	114,935	13,773	65,823	16,425	15,412	3,302	200
Music	24,191	2,378	17,397	3,105	1,250	59	2
Film & Video	21,653	2,423	12,348	3,422	3,132	322	6
Publishing	10,146	1,504	6,394	1,316	868	64	0
Art	9,625	2,110	6,089	875	508	40	3
Games	9,213	698	3,630	1,711	2,369	735	70
Design	7,755	497	2,644	1,389	2,369	815	41
Theater	5,983	836	4,373	490	266	18	0
Food	5,221	573	2,181	1,235	1,169	57	6
Technology	4,971	315	1,398	686	1,552	952	68
Comics	4,434	550	2,756	572	483	72	1

Source: Kickstarter

¹⁸ <http://www.hivewire.ca/>



2.4 What does it mean for Companies?

Crowdfunding is an important part of the capital for many new businesses and should be considered a viable source of funding and a new source of liquidity. Crowdfunding is also a way to connect and engage with customer advocates and investors in venture markets. It's especially important for certain sectors

that are struggling to raise financing due to specific economic conditions (e.g., mining sector due to low commodity prices) and underserved markets that are often overlooked by traditional sources of funds, such as main street businesses.

For Companies

Benefits

Access to Capital



- Wide distribution over the internet
- Low cost, efficient, transparent capital
- The 'great equalizer'

Marketing Platform



- Media/PR, awareness
- Increase customer engagement and
- Evangelize backers into investors (customer acquisition)

Validation



- Reduce risk by getting feedback on new launches (product or ventures)
- Market research

Risks



Expose your Idea

- Raising funds via crowdfunding markets is a very public and transparent
- Protect your IP and speak to a lawyer



Resourcing

- Crowdfunding takes a lot of effort and commitment



Failure

- The majority of ideas fail to reach their funding goal
- How will this affect your companies brand?

“While it's rare and admirable for a giant to take hundreds of steps forward, let's all agree that empowering millions to take even a single step can generate exponential value and ignite productive change. – Craig Asano, Founder & Executive Director, NCFA Canada”



2.5 What does it mean for Investors (or Backers, Lenders)?

- Crowdfunding enables backers to support projects and causes in which they believe and want to support. It allows them to 'vote with their dollars' and support projects and entrepreneurs directly in ways that are impactful to them and other like-minded peers in their community.
- Crowdfinance platforms are a great way to connect with other investors beyond local angel group presentations and random introductions.
- Regulated crowdfunding markets give investors a channel to source new equity and debt deals to which they otherwise may not have access (with built in due diligence materials).
- Investors are provided with the opportunity to make a return on their investment and diversify their portfolio (by spreading risk across a number of investments with lower minimum participation amounts).
- In some provinces, it allows participants to benefit from associated tax credits (if eligible) such as small business.
- In hybrid model financing rounds, there are often perks associated with obtaining equity participation interests that may benefit investors (e.g., discounted products / services).





2.6 What does it mean for Government?

Complementary to the Financial Ecosystem:

Debt and equity crowdfunding have the potential to significantly improve access to capital for small and medium-size enterprises (SMEs) all the way from start-ups to scale ups. This has been the experience of both the US and the UK and there is no reason why Canada cannot duplicate their success. It is worth noting that demand for capital from Canadian SMEs continues to outpace supply. Crowdfunding offers SME's greater choice than is currently available to these firms. Crowdfunding complements other aspects of the financing ecosystem including everything from angel to venture capital. Indeed, even today, one can discern evolving working relationships, partnerships even, on this front.

Confusing Regulations at the Risk of Losing High-growth Companies to Foreign Shores:

Canada has started from behind insofar as crowdfunding is concerned, with the US and the UK enjoying a good 5-10 year lead over us. What's more, there is a growing danger that that lead will extend even further given the plethora of confusing and contradictory crowdfunding regulations that have sprouted up in 2016. As a result, there is a risk that SME's will turn towards foreign-based crowdfunding portals. There is some evidence that listings of Canadian firms on US portals is already greater in number (and dollars raised) than they are with Canadian ones. As with other elements of the earlier-stage financing ecosystem, once more Canada risks the export of potentially high-growth companies to foreign shores, repeating what many suspect has been occurring with respect to venture capital.

Incumbent on Government to Improve Crowdfinancing Literacy and Set the Stage to Thrive:

Crowdfunding is not solely a provincial issue. Nor is it entirely a federal one. It is a Canadian issue. All governments need to examine what they can do to improve the ability of SME's to tap this potentially huge funding source. In this regard, the proper role for government is to set the stage for crowdfunding to thrive. To do this, governments can facilitate the industry's own efforts to improve the financial literacy of all parties in crowdfunding including SME's seeking capital, potential investors and entrepreneurs considering setting up portals.





2.7 Why is Crowdfunding Important to Canada?

Scalable Enabler that Fills a Funding Gap and Generates Economic Growth:

At its broadest level, the benefits of crowdfunding in competitive and innovative economies cannot be understated as they strike a chord on many levels:

- A. Crowdfunding spurs economic growth, creates jobs, generates revenue and stimulates innovation and entrepreneurship.
- B. It unlocks a new source of efficient and transparent capital to fill 'Funding Gaps' in the Canadian economy while improving the level and quality of aligned risk capital to support the next generation of millennial, innovative firms.
- C. Crowdfunding supports diversity by enabling Capital and resources to flow to underserved communities across verticals, geography and social economic tiers.
- D. It helps start-ups and scale-ups achieve strong growth through regional and global market diversification as well as connects scale-up ventures to angel and venture capital investment.
- E. Crowdfunding accelerates the commercialization of new products, ideas and services in Canada that can compete globally and ultimately works to strengthen Canada's entrepreneurial backbone at grassroots levels.

Strengthens Small Business: Crowdfunding research released by the U.S. consultancy group, Crowdfund Capital Advisors, reported that various crowdfunding models have a positive impact on job creation, follow-on investment and sales revenue.¹⁹ This is in line with the British Business

Bank, crowdfunded ventures accounted for over 32%²⁰ of all visible U.K. seed deals in the first half of 2014, and are actively contributing to job creation and economic growth.

1. Job Creation

- 39% of companies who have successfully raised equity or debt-based crowdfunding hired an average of 2.2 new employees post-raise.
- An additional 48% indicated an intent to hire new staff with use of proceeds
- 28% of companies who had success with rewards-based crowdfunding hired an average of 2 new employees post-raise.

2. Increased Follow-on Investment

- Within 3 months of a successful crowdfunding campaign, 28% of the companies had successfully completed an angel investor or VC round.
- An additional 43% were in discussions with institutional investors

3. Increased Sales Revenue

- Quarterly sales revenues increased by an average of 24% for successfully crowdfunded companies (via rewards, equity or debt);

¹⁹ <http://ncfacanada.org/cca-research-does-crowdfunding-positive-impacts-job-creation-revenue-and-follow-on-investment/>

²⁰ <http://british-business-bank.co.uk/wp-content/uploads/2015/03/230315-Equity-crowdfunding-report-final.pdf>

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[3.0 Regulatory Landscape]



Available Exemptions for Raising Capital Online



Portal Registration Requirements



Regulating Innovative Fintech Models



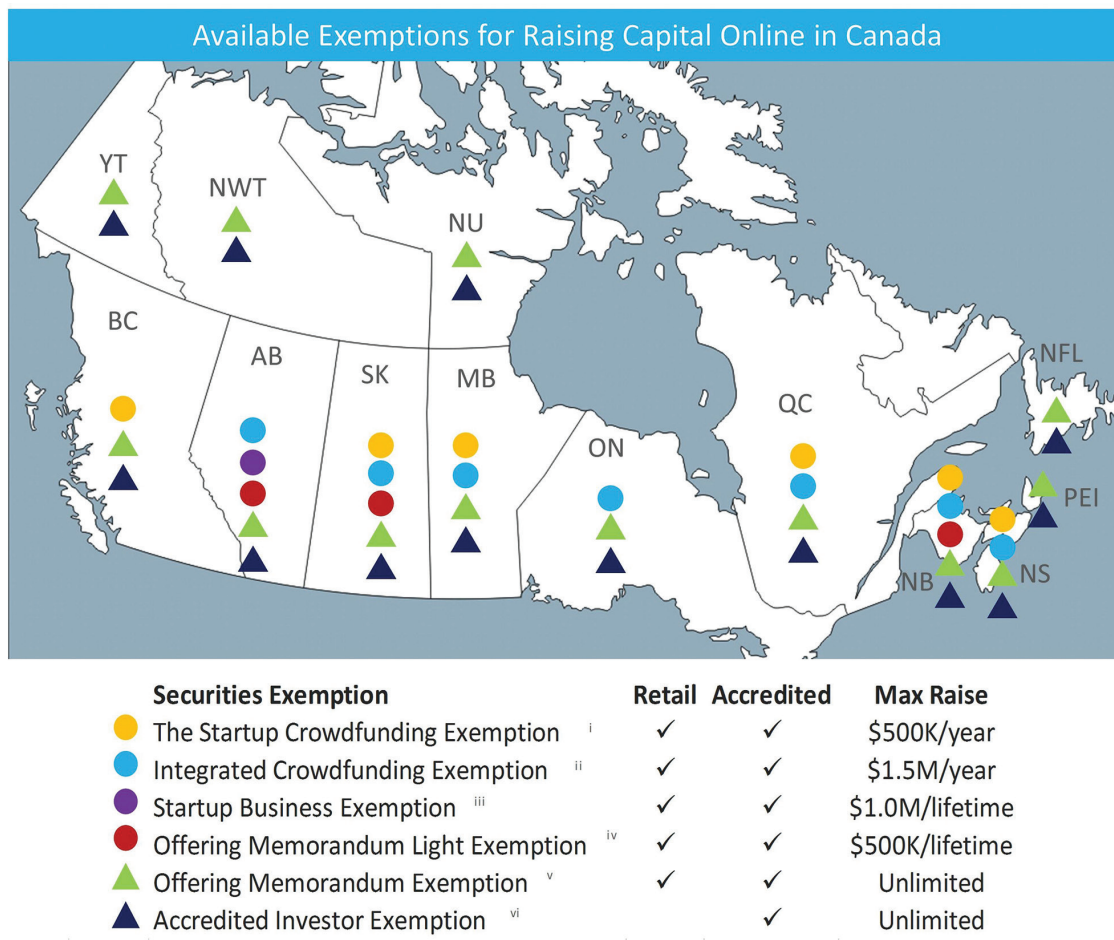
3.1 Available Exemptions for Raising Capital Online

Non-regulated: There are no registration requirements for reward or donation-based crowdfunding campaigns or portals. Traditional consumer protection, contract, tort and business laws apply.

Regulated: Debt and equity based crowdfunding are regulated by a number of different rules and regulations. The specific rules and regulations that apply are dependent on how the crowdfunding portal operates and whether securities are sold by the portal or the issuer. If securities are sold to the public

securities laws and regulations apply or an exemption from those laws and regulations is required. Issuers may rely on more than one exemption when selling securities. For instance, an issuer may rely on the Start-up Crowdfunding Exemption to raise \$250,000 and the Accredited Investor Exemption to raise an additional \$1 million concurrently.

The main securities law exemptions used for debt and equity crowdfunding in Canada are as follows:



Online Lending Regulations: Crowdfunding portals that are considered debt-based portals are required to follow all the same regulations and underwriting guidelines as their bank and lender counterparts that govern financial transactions with consumers. These federal and provincial laws address such matters as allowable interest rates, disclosure of costs of borrowing, guarantees and indemnification, registration of security, anti-money laundering, privacy and data security, anti-spam, advertising, electronic commerce, debt collections, default, and bankruptcy among other issues.

Depending on the business niche and model of these debt crowdfunding portals they may also be subject to rules and regulations governing banks, credit unions, mortgage brokers, registered dealers, funds, trusts, student loans, and the sale of securities.^{vii}

This section concerns itself with the securities laws and regulations in Canada that apply when raising capital through lending and equity crowdfunding. For a list of some of the other laws and regulations that apply to debt crowdfunding portals in Canada please see note 1 in the endnotes below.

3.1.1 The Start-up Crowdfunding Exemption

Crowdfunding Exemption for Start-up Businesses:

In May 2015, six provinces adopted the Start-up Crowdfunding Exemption: British Columbia, Saskatchewan, Manitoba, Quebec, New Brunswick and Nova Scotia. The exemption is available to non-reporting issuers located in those provinces who are not otherwise an investment fund.

The securities issuers may offer are: (a) common shares, (b) non-convertible preference shares, (c) security convertible into securities referred to in (a) or (b), (d) non-convertible debt securities linked to a fixed or floating interest rate, and (e) units of a limited partnership. Investment funds, as defined in the securities laws in Canada, are not allowed to use either exemption.



Issuer and Investor Caps: Issuers can raise a maximum of \$500,000 in two separate offerings within a 12-month period. The offerings must be a minimum of 90 days apart. Issuers are not required to provide financial statements but must prepare an offering circular in the required form. The offering circular is not vetted by securities regulators prior to the offering. Anyone who is resident in a participating province can invest up to \$1,500 per issuer distribution in a 12 month period. The offering must be posted on a recognized equity crowdfunding portal. The portal is required to have filed for recognition as a Start-up Crowdfunding Portal or be registered as a securities dealer in each province it intends to operate. Issuers and portals using this exemption can advertise and solicit investors.

Exempt Distribution Report: Issuers must file a Form 45-106F1 exempt distribution report within 10 days after the distribution of securities under the exemption along with a copy of the offering circular in British Columbia. In Saskatchewan, Manitoba, Quebec, New Brunswick and Nova Scotia issuers must file a Form 5 exempt distribution report within 30 days after the distribution of securities under the exemption along with a copy of the offering circular and a Schedule 1 - Purchaser Information.

3.1.2 The Integrated Crowdfunding Exemption

Ontario Led Crowdfunding Exemption: In January 2016, six provinces adopted the Integrated Crowdfunding Exemption: Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia. In October 2016, Alberta also adopted the Integrated Crowdfunding Exemption. The exemption is effective in all jurisdictions except Saskatchewan where it is subject to ministerial approval which has not yet been provided as of November 14, 2016. In May 2016, British Columbia adopted an exemption to enable British Columbia resident issuers to use the Integrated Crowdfunding Exemption outside of British Columbia. The exemption is not available for use within British Columbia.

Issuer Caps and Restrictions: The Integrated Crowdfunding Exemption is available to reporting and non-reporting issuers located and incorporated in Canada who are not otherwise an investment fund. Issuers can raise a maximum of \$1,500,000 in one of more offerings within a 12 month period. Issuers are required to provide management prepared financial statements if they have raised less than \$250,000 since inception. Issuers are required to provide auditor reviewed financial statements if they have raised \$250,000 or more since inception, and audited financial statements if they have raised \$750,000



or more since inception. They are also required to prepare an offering circular in the required form and provide personal information forms for all directors, officers and control persons related to the issuer. The offering documents are not vetted by securities regulators prior to the offering. The offering must be posted on a registered equity crowdfunding portal. The portal is required to be registered as a restricted dealer or as a securities dealer in each province in which it intends to operate. The portal must review the offering documents and the personal information forms of the issuer prior to posting on the portal. They must also complete criminal record and background checks of each director, officer and promoter of the issuer. Issuers and portals using this exemption are not allowed to advertise or solicit investors.

Issuers must file a Form 45-106F1 exempt distribution report within 10 days after the distribution of securities under the exemption along with a copy of the offering circular, financial statements and personal information forms.

Issuers who successfully raise capital under the Integrated Crowdfunding Exemption have ongoing reporting requirements similar to that required of reporting issuers if they have 50 or more shareholders of record.

Investor Caps: Anyone who is resident in a participating province, who is not an “accredited investor”, can invest up to \$2,500 per issuer distribution subject to a maximum of \$10,000 in a 12-month period in all offerings under the exemption. Accredited investors resident in a participating jurisdiction can invest up to \$25,000 per issuer subject to a maximum of \$50,000 in a 12-month period in all offerings under the exemption.

3.1.3 Start-up Business Exemption (Alberta Only)

Alberta Only Start-up Business Exemption:

The Start-up Business Exemption is available in Alberta only. The issuer cannot be an investment fund or reporting issuer in any jurisdiction of Canada. The head office of the issuer must be located in Alberta or a jurisdiction which has adopted a corresponding exemption such as the Start-up Crowdfunding Exemption. Issuers can raise a maximum of \$250,000 in two separate offerings within a 12-month period, and an aggregate lifetime amount of \$1,000,000 under the exemption. Offerings must be a minimum of 90 days apart. Issuers are not required to provide financial statements but must prepare an offering circular in the required form. The offering circular is not required to be vetted by securities regulators prior to the offering.



An investor can be anyone but they are restricted to investing a maximum of \$1,500 per issuer distribution in a 12 month period, which can be increased to \$5,000 if a registered dealer provides suitability advice to the investor. If a funding portal is used the portal must be a registered dealer or a restricted dealer authorized to sell securities under this exemption. Issuers must file a Form 45-106F1 exempt distribution report within 10 days after the distribution of securities under the exemption along with a copy of the offering circular.

Limited Use Currently: While the Start-up Business Exemption permits multi-jurisdictional offerings using the exemption, it is not currently possible to do so as this exemption has not been adopted or recognized in any other jurisdictions in Canada. A funding portal is not required when selling securities. Any of these Funding portals offering

securities using one of these exemptions must be registered as a securities dealer or restricted dealer authorized to sell securities under the specific exemption.

3.1.4 Offering Memorandum Light Exemption

Offering Memorandum Light Exemption is available in Alberta, Saskatchewan and New Brunswick. The issuer cannot be an investment fund, mortgage investment entity, involved in real estate, or a reporting issuer in any jurisdiction of Canada. The securities offered cannot be asset-backed, a derivative other than an option, warrant or other security convertible into an equity security of the same issuer, or security linked to a derivative or to another security other than an equity security of the same issuer.



Issuers can raise an aggregate lifetime amount of \$500,000 under the exemption. Issuers are not required to provide reviewed or audited financial statements and may use private enterprise Canadian GAAP versus IFRS for reporting issuers in preparing their financial statements.

The issuer must prepare an offering memorandum in the required form under the Offering Memorandum Exemption. The offering memorandum is not vetted by securities regulators prior to the offering. An investor can be anyone but they are restricted to investing a maximum of \$2,000 per issuer in a 12 month period. Issuers must file a Form 45-106F1 exempt distribution report within 10 days after the distribution of securities under the exemption along with a copy of the offering memorandum. If a funding portal is used the portal must be a registered dealer or a restricted dealer authorized to sell securities under this exemption. Issuers and portals using this exemption can advertise and solicit investors.

3.1.5 Offering Memorandum Exemption

Offering Memorandum Available Across Canada with Slight Variations in each Jurisdiction: The Offering Memorandum Exemption is available in all provinces and territories in Canada. Issuers can raise an unlimited amount under the exemption. There are slight variations to the rule in each jurisdiction.

In Ontario, New Brunswick and Quebec the exemption is not available to investment funds. In Alberta, Saskatchewan and Nova Scotia the exemption is not available to investment funds unless they are non-redeemable funds or reporting

issuer mutual funds. In all other jurisdictions the exemption is available to all reporting and non-reporting issuers. In Alberta, Saskatchewan, Ontario, Quebec, New Brunswick and Nova Scotia the securities offered cannot be securitized products, specified derivatives or structured financial products. The offering memorandum exemption requires issuers to prepare an offering memorandum in the required form and provide audited financial statements prepared using IFRS for reporting issuers. The offering memorandum is not vetted by securities regulators prior to the offering.

Anyone can invest in an issuer's securities under the offering memorandum exemption but investors are restricted with respect to the amount they may invest depending on where they reside:

- An investor resident in British Columbia and Newfoundland can invest an unlimited amount;
- An investor resident in Manitoba, Northwest Territories, Nunavut, Prince Edward Island and Yukon can invest an unlimited amount if they are eligible investors; if the investor is not an eligible investor the maximum they may invest is \$10,000;
- An investor is resident in Alberta, New Brunswick, Nova Scotia, Ontario, Quebec and Saskatchewan may invest up to \$10,000 if they are non-eligible investors; \$30,000 if an eligible investor; and if they are an eligible investor that receives advice from a portfolio manager, investment dealer or exempt market dealer that the investment is suitable they may invest up to \$100,000.

Reporting Requirements: Issuers must file a Form 45-106F1 exempt distribution report within 10 days after the distribution of securities under the exemption along with a copy of the offering memorandum. In Alberta, New Brunswick, Nova Scotia, Ontario, Quebec and Saskatchewan, the issuer must also file a copy of all related marketing materials. If a funding portal is used the portal must be a registered dealer or a restricted dealer authorized to sell securities under this exemption. Issuers and portals using this exemption can use advertising and solicit investors.

Issuers who successfully raise capital under the Offering Memorandum Exemption in Alberta, Saskatchewan, Ontario, Quebec, New Brunswick and Nova Scotia have ongoing reporting requirements similar to that required of reporting issuer, such as filing audited financial statement 120 days after the end of each financial year. In New Brunswick, Nova Scotia and Ontario issuers must also file current or material change reports when key events occur. In Ontario and New Brunswick, issuers who are not reporting issuers in those jurisdictions who successfully raise capital under the offering memorandum exemption are designated as a market participant.

If a funding portal is used the portal must be a registered dealer or a restricted dealer authorized to sell securities under this exemption. Issuers and portals using this exemption can advertise and solicit investors.

3.1.6 Accredited Investor Exemption

The Accredited Investor Exemption is available in all provinces and territories in Canada. The exemption is available to all reporting and non-reporting issuers. No specified disclosure document or financial statements are required. All securities may be offered. Investors must be an accredited investor based on annual income (\$200,000 individually or \$300,000 with spouse) or net financial assets (\$1 million excluding home) or net assets (\$5 million).

Issuers must file a Form 45-106F1 exempt distribution report within 10 days after the distribution of securities under the exemption along with a copy of the offering memorandum. If a funding portal is used the portal must be a registered dealer or a restricted dealer authorized to sell securities under this exemption. Issuers and portals using this exemption can use advertising and solicit investors.

“ We are on the cusp of a new, potentially revolutionary era in consumer and SME finance that harnesses the wisdom of the crowd and its power to effect huge change in the financial sector. – *Richard Remillard, President, Remillard Consulting Group* ”



3.2 Portal Registration Requirements

Equity crowdfunding portals (including debt portals in most circumstances) must either register or provide notice prior to commencing operations as a funding portal in Canada. What they must do depends on the jurisdiction(s) in which they plan to operate and which securities law prospectus and registration

exemption the portal and the issuers using the portal will rely on to distribute securities. The following chart summarizes the portal registration/notice rule in connection with each securities exemption relied on by an issuer.

FUNDING PORTAL NOTICE/ REGISTRATION RULE	JURISDICTIONS	SECURITIES EXEMPTION RELIED ON
Start-up Crowdfunding Exemption Portal	BC, SK, MB, QU, NB, NS	Start-up Crowdfunding Exemption
Integrated Crowdfunding Exemption - Restricted Dealer	SK, MB, ON, QU, NB, NS	Integrated Crowdfunding Exemption; Start-up Crowdfunding Exemption
Investment Dealer	BC, AB, SK, MB, ON, QU, NB, NS, NFL, PEI, NU, YK, NWT	Accredited Investor; Offering Memorandum Exemption; Offering Memorandum Light Exemption; Integrated Crowdfunding Exemption; and Start-up Crowdfunding Exemption
Exempt Market Dealer (EMD)	BC, AB, SK, MB, ON, QU, NB, NS, NFL, PEI, NU, YK, NWT	Accredited Investor; Offering Memorandum Exemption; Offering Memorandum Light Exemption; Integrated Crowdfunding Exemption; and Start-up Crowdfunding Exemption
Restricted Dealer	BC, AB, SK, MB, ON, QU, NB, NS, NFL, PEI, NU, YK, NWT	A portal can apply for an exemption order to be recognized as a restricted dealer when using any of the exemptions and requiring a waiver from certain registration requirements.

3.2.1 Start-up Crowdfunding Exemption

A funding portal planning to sell securities under the Start-up Crowdfunding Exemption is not required to be registered but must file an application and personal information forms completed by each director, officer, control person, and promoter of the portal with all securities regulators 30 days prior to commencing

operation. The head office of the portal must be located in one of the provinces that adopted the Start-Up Exemption, and each of its officers, directors, controlling shareholders and promoters must be residents of Canada. The portal must undertake to:

- Make the start-up's offering materials and risk acknowledgement in prescribed form available

online, and limiting advertising and soliciting investors to the portal's website;

- Take reasonable steps to ensure that the start-up issuing securities and all investors are resident in the provinces in which the Start-Up Exemption is available; and
- Not providing any investment advice.

3.2.2 Integrated Crowdfunding Exemption – Restricted Dealer

Obtaining recognition as a restricted dealer under the Integrated Crowdfunding Exemption is almost identical to obtaining registration as an exempt market dealer. Restricted dealer funding portals are not required to comply with the strict requirements of the “know your client” requirements of *National Instrument 31-103 Requirements, Exemptions and Ongoing Registrant Obligations*, but they are still required to know the basics of those requirements and comply with all other requirements of an exempt market dealer. Other requirements are equal or greater than those required as an exempt market dealer. As a result, no portals have chosen to register as a restricted market dealer under National instrument 45-108 – the Integrated Crowdfunding Exemption in Canada.

3.2.3 Securities Dealer

Securities dealers operating as an exempt market dealer or investment dealer may amend their registration statement to include offering securities under the Start-up Crowdfunding Exemption, the Integrated Crowdfunding Exemption, or Start-up Business Exemption. They are likely already authorized to offer securities under the Accredited Investor and Offering Memorandum Exemptions.

All requirements that are applicable when selling exempt securities to investors under their current business model of a securities dealer, such as “know your product”, “know your client”, and “suitability” applies when selling through a dedicated funding portal.

If a portal is not already registered and intends to register as a securities dealer they should expect the following steps:

- Choose one or more categories of registration;
- Meet the initial registration requirements;
- Decide if they want to register in more than one province or territory;
- Complete and submit an application;
- Pay registration fees; and
- Be approved.

The process, obviously, is a bit more complicated than the foregoing. A portal operator should expect it will take a minimum of six to twelve months to become registered in Canada.

3.2.4 Restricted Dealer – Exemption Order

Portals may apply for recognition as a restricted dealer if their business model does not fit within one of the recognized categories of a portal or registered dealer. To be successful, a portal must address the regulatory concerns of each requirement in the traditional registration requirement. The Social Venture Exchange (SVX), for instance, was recognized as an exempt market dealer and provided a waiver of the standard know-your-client and suitability requirements of an exempt market dealer,^{viii} as was AngelList.^{ix}



3.3 Regulating Innovative Fintech Models

To remain competitive with the trend towards regulators world-wide adopting fintech innovation hubs and ‘regulatory sandbox’ services and programs including China, Australia, Singapore and Hong Kong²¹, in October 2016, the Ontario Securities Commission announced its OSC Launchpad initiative. OSC Launchpad is not a regulatory sandbox. Instead, it is a support center for fintech businesses that fit into one of the following categories:

- A new or early-stage fintech business that has not yet started operations or is applying to the OSC for exemptive relief;
- Having a new, innovative or significantly different product from those currently on the market;
- Developing innovative products and/or services that will provide identifiable benefits to investors;
- Addressing consumer or investor risks presented by its innovation; or
- Requiring additional support because the business model raises new or complex regulatory questions.

OSC staff will assist fintech entrepreneurs in identifying legislation that may be applicable to the business model they present to the OSC. Staff will not be providing guidance, structure advice, or legal advice as part of the OSC Launchpad.

Given that Canada is without a formal national securities regulator like the Securities Exchange Commission (SEC) in the U.S., it is hopeful that other provincial regulators in major Canadian cities where there are active fintech crowdfunding markets such

as Vancouver, Alberta and Quebec adopt similar approaches to working alongside innovators to test the demand and impact, implementation rigour, regulatory controls and potential exemptive relief that may be granted to operators of new financial services models in any number of the wide range of sectors that are considered part of the fintech ecosystem.

Further, given the regulatory variations that exist in today's exempt market it will be interesting to see how open regulators will be and whether or not there will be major variations between provinces. Ultimately, the majority of industry stakeholders are advocating for streamlined and harmonious regulations where possible to reduce the need for unnecessary regulatory burden.



²¹ <http://www.reuters.com/article/us-hongkong-banks-regulator-idUSKCN11CoEV>



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4.0 Emerging Trends and Perspectives



Crowdsourcing and Sharing



Market provisioning and Infrastructure



Marketplace Lending (P2P and Online Lenders)



Community Development and Non-Profit Sector



Real Estate Crowdfunding: Opening Markets to Investors



Blockchain and Crypto 'Crowdsales'



Innovative Funding Models and More Liquidity



Academia in Crowdfunding Education

While rewards-based crowdfunding may now be considered the genesis of these new forms of financing, there are multiple branches of alternative finance funding models and related industry developments that are collectively impacting capital

markets and how companies and investors connect and interact with each other amidst a brave new collaborative, transparent, smart and innovative, streamlined economy.



4.1 Crowdsourcing and Sharing

The Sharing Economy: The sharing economy has been defined as marketplaces and platforms that allow individuals and organizations to buy and sell goods and services directly from one another, and share or lend goods or assets on a short-term or time-share basis. While there is a lot of regulatory debate around the merits (e.g. innovation) and economic and social impacts of crowdsourcing, the reality is that the sharing economy is here to stay.

Consumerism and Relationships: In many ways, the idea of finding what you need amongst your neighbours and community, either by donation or exchange, may be the oldest form of trade we have. What's different is the efficiency and reach that Internet and mobile technologies provide to change the way we define who are those neighbours and communities. The rise of digital models to replace everything from actual marketplaces, to letters of introduction, methods of putting forth 'the ask', or modes of bartering and now investment participation, have given rise to several multi-billion dollar business models such as Airbnb, Facebook, YouTube, Amazon Marketplace, Craigslist, GoFundMe, Meetup and of course, Uber to name just a few. So why are crowdsourcing marketplaces growing at such a viral rate? These platforms leverage technology and data to smartly match consumers while providing opportunities for them to monetize their excess,

such as goods, time, money and space. They also allow online communities of like-minded consumers to exchange and interact in new 'cool' ways than never before. In doing so, they've managed to embed consumerism into relationships and in the process have figured out how to monetize the basic value that every child is taught: SHARING.





4.2 Market provisioning and Infrastructure

White Label Infrastructure (Technology enabler):

The growth of crowdfunding portals and investment management services has developed more slowly in Canada due to regulatory constraints and limited market size. Like many other industries, this market growth has attracted white label crowdfunding software vendors either as an offshoot of operating a portal or as a stand-alone software as a service. These players include Katapult in investment



crowdfunding, investment management and private placements; FundRazr in donations, rewards and widgets; and Thrinacia in each of these segments. These players and other international white label providers have contributed to the launch of multiple portals in Canada to date.

The benefits of the white label options includes their ability to allow customers to build platforms or launch branded campaigns at much lower investment of

time and money than building and maintaining their own software. The white label SaaS providers have found larger customer bases outside Canada than within their home market but their ongoing product availability and continual technology and product upgrades is a positive indicator that the domestically industry is continuing to grow.

Global Connectivity: Strong returns generated from alternative finance products have generated cross-border interest looking for mechanisms to participate. It is estimated that, in China alone, there are \$27 trillion invested in personal savings accounts and some of this capital has flowed, particularly in the real estate sector, into Canada.²² The primary barriers to cross-border investment transactions have been distribution channels, cultural, language and compliance given the multiple regulatory environments.

Fintech infrastructure, like white label platform vendors and 'regtech' solution providers who are working to streamline the regulatory process using technology are surmounting these barriers to connect more buyers and sellers in different countries than ever before. The distribution channels are increasingly being addressed and technology, like translation tools, has created impressive solutions to address language. The regulatory barriers are also being addressed via compliant workflows and third party plug-ins. That leaves the cultural piece to be addressed but a much more frictionless environment for international alternative finance to flourish.

²² <http://www.smh.com.au/business/china/with-28-trillion-in-savings-chinese-are-set-to-change-the-world-20150625-ghy4x1.html>

Human Capital – Jobs in Innovation Finance:

Alternative finance crowdfunding and fintech markets and companies are starting to woo experienced corporate finance, funding consultants and investor relations type resources to online exempt markets to help them penetrate traditional finance markets. Leading software engineers are also keen to not only penetrate the lucrative financial services industry but advance new technologies in a sector that has been traditionally founded around closed networks and

systems using legacy database technologies. There is a potential for creating a large number of jobs if there is significant and scalable success that eventually emerges from Canada's fintech crowdfunding sector. This may come in the shape of a domestically curated success story (perhaps in partnership with one of the larger financial institutions), or an international entrant seeking to profit on Canada's commercialization gap and limited capital supply.





4.3 Marketplace Lending (P2P and Online Lenders)

Connecting Investors with Borrowers: Marketplace lending represents a fundamental shift in how loans are funded and originated. The sector has moved the entire borrowing experience online and is disrupting traditional banking models by connecting investors directly with borrowers via an online intermediary. At its core, marketplace lending not only makes borrowing faster and more affordable, it has also begun to democratize investing across the globe. Through online platforms, the same opportunities that are accessible to institutional investors and now equally available to individuals.

A Market built by the people, for the people.

Millennials and successive generations are demanding new and better ways to manage their money – marketplace lending is one of the first viable banking alternatives not bearing the burden of a legacy banking technology or physical infrastructure. The search for this alternative has resulted in the creation of marketplaces which are capable of displacing the lending and borrowing functions that are the very foundation of banks.

Lending Built on Big Data, Creates Big Wins.

Using big data and novel approaches to credit scoring, marketplace lenders are transforming all types of lending by making it easier, faster and cheaper to put more options in front of prime and near-prime borrowers.

Credit Market Disruption is Here to Stay:

Marketplace lending disrupts one of the most sticky and profitable aspects of banking relationships, the credit product. Introducing new sources of capital to borrowers is both a competitive threat and market

opportunity for banks – the long-term threat relates to whether alternate credit relationships lead to greater or fewer customers and whether their net profitability to banks is impacted. The banking industry is already looking for ways to participate that keep their skin the game without creating net new asset exposure.

Balance Sheet Lenders vs Peer-to-Peer: Both consumers and business can now apply for loans online and directly see which “investors” or “lenders” are willing to offer them a loan. In some instances, the platform itself is seen to be doing the lending by placing the loans onto the balance sheet of another lender (a “balance sheet” lender); in others, the platform operates a marketplace which enables third parties to lend directly to borrowers and even compete for the opportunity (a “peer-to-peer” lender). Lenders/investors may be consumers, high net worth investors, private investment groups or financial institutions.

Striking the Right Regulatory Balance: This intersection of “investing” and “lending” also hints at the regulatory complexities facing the growing industry. In particular, as consumers enter this market alongside major investment groups, regulators of all types as well as the platforms themselves, look to create reasonable protections that don’t discourage the growth, but do attempt to ensure a responsible, fair and level playing field. The key shift for regulators has been understanding that this sector represents an entirely new financial service and that appropriate regulations will need to be developed over time that will encourage innovation while ensuring market stability.



4.4 Community Development and Non-Profit Sector

Locavesting: Funding for start-up businesses and entrepreneurs, non-profits and arts and culture in today's economy is multifaceted. Crowdfunding models are available that provide the opportunity for every member of every community to participate in the localization of their economy. The benefit of community members allocating a small portion of their investments into local business or innovation (often referred to as 'locavesting'²³) assists in filling a gap in entrepreneurial finance for Start-ups and expansions at a relatively low cost. This creates and enhances dynamic, diversified economies in many underserved areas, and allows businesses to raise capital locally while providing residents with the opportunity to support and become involved in their local economy. The arts and culture sector of the economy that includes artists, film makers, musicians, photographers and many others will utilize these tools to pitch for funding of their projects and, again, to raise awareness. Supporting the arts and culture sector leads to economic vitality in our communities.

Filling the Funding Gap: While Community Futures network in Canada²⁴ can provide small business services and funding for expansion in rural areas, raising funds for start-ups or innovations where there is no cash flow in the business continues to be a challenge. Networking community futures with government approved agencies and others in a national initiative, portal and/or shared service would lead to community based investment that would fill this gap. Crowdfunding is as much a marketing strategy as it is a fundraising platform. All of this is part of a larger strategy to promote "Buying local, and

Making local leading to Investing local." Combining these three objectives will lead to a community that is diverse and resilient in uncertain economic times.

A Powerful New Funding Channel for Non-Profits:

Crowdfunding has had an impact on the non-profit and charitable sector. The combination of social media activism and the platforms which offer the ability to streamline outreach and monetize cause-based giving is a powerful new channel. This represents an impactful shift as it puts smaller charities and non-profits on a more level playing field in terms of the cost of outreach, and by providing not just direct engagement for a single donation, but creating a feeling of participation and engagement, larger non-profits and charities may find a need to offer greater transparency and accountability in terms of where those individual donations are allocated.

Community Participation and the Economy:

In the recent past, non-profit organizations were considered ancillary to the economy of a community. We now understand they are, in fact, an integral part of a community's economic landscape and infuse it with energy. Each of our communities host many non-profits that provide the local economy with public goods that generate positive externalities for the local community; health, recreation, the arts, education. The list is massive. While non-profits may make grant requests from government, government's participation is generally very limited. Community participation is required. Leveraging these new online financing tools fills a role in community awareness and fundraising.

²³ <http://www.locavesting.com/>

²⁴ <http://communityfuturescanada.ca/>



4.5 Real Estate Crowdfunding: Opening Markets to Investors

Growing Internationally: Real estate crowdfunding was a \$3billion industry in 2015 in the United States (US) and is continuing to grow. In the U.S. alone, there are over 175 real estate funding platforms up from 75 such platforms in 2014. Globally, there are over 250 such platforms up from 100 such platforms in 2014. In the U.S., seventy to eighty percent (75%-80%) of the funds raised under Rule 506(c), the accredited investor rule that allows advertising, has been in the real estate sector. What's fueling this growth?

Proof of Concept and Attractive Returns: Real estate is an investment category the average investor believes they understand and know without assistance of an investment professional. Real estate is also a tangible "hard asset" and investors take comfort in the fact they can physically visit and see their investment in a real estate project which can produce steady returns (e.g., 10%) with a relatively low (e.g. 2-3%) volatility and risk. Real estate projects have a long history of syndication vehicles worldwide such as Real Estate Investment Trusts (REITs) and Real Estate Limited Partnerships (RELPs). Crowdfunding is a new way to syndicate real estate investments; a sector investors are already comfortable investing in. Crowdfunding provides more transparency and openness than existing syndication models, which makes it attractive to investors and those seeking capital. Platforms like Patch of Land²⁵ (USA) now claim an average blended rate of return of 12%. Traction is also evident for international platforms like Prodigy Network²⁶ (USA, South America), Companisto²⁷ (Europe), CoAssets²⁸ (Asia) and others.

Flexibility & Speed: Real estate funding platforms are more than a listing service of properties and projects available to potential investors. Successful platforms focus on specific geographic markets and asset classes. They offer opportunities to invest in a local contractor's latest housing flip through to multi-million dollar resort and commercial developments. Investments may take the form of a direct or indirect investment in debt or equity participation in a real estate project. Funding platforms provide tools to enable investors to find and compare these different opportunities quickly and efficiently. Algorithms and big data analytics make the platforms smarter and enable faster workflows and approvals. They streamline the investment process by utilizing online deal rooms and subscription agreements, electronic signatures, and payment systems. They strive to make the investment process as frictionless as possible enabling quicker closings, and in theory, faster access to investment returns.

Unique Investor Benefits: Investors are able to reap a number of benefits by investing through a crowd-funded portal. They are able to gain access to quality real estate offerings that they may not have had. Investors can strategically choose properties by geographic location, asset class, stabilized or value-add assets and build a personalized portfolio. They can choose to invest in specific individual real estate projects of their choosing or a pool of projects as part of a RELP or private REIT. Real estate investors, who are familiar with underwriting individual properties, assessing value and modeling cash flows, can step into the next layer of real estate investment by

²⁵ <https://patchofland.com/statistics/>

²⁶ <https://www.prodigynetwork.com/en/default.aspx>

²⁷ <https://www.companisto.com/en/>

²⁸ <https://www.coassets.com/>

leveraging the knowledge of a larger pool of investors or portfolio management group. All of this can be done safely through online avenues like computer, mobile or tablet. Investors get to do full due diligence on the property in which they want to invest and hold a direct title to it. In today's volatile stock market it makes a lot of sense to invest in quality real estate deals that have been vetted by experts and backed by underlying leases that offer stability of cash flow. Traditionally such investments were only open for wealthy investors as sponsors would ask for larger cheques (e.g. minimum \$100,000), however, with crowdfunding small investors can also now co-invest alongside wealthy investors and participate on the same terms.

Unique Benefits for Developers and Real Estate

Companies: Real estate developers and companies are constantly raising capital. Equity requirements on new projects in 2015 remain between 50% and 65% on average worldwide, with most lenders requiring some form of construction guarantee. Funding platforms allow developers and other real estate companies' access to a new pool of accredited and retail investors at a much lower cost than traditional funding avenues while reducing their workload as many intermediary processes associated with traditional avenues for raising capital are not cost effective or efficient. It also allows them to obtain community support for projects that may have otherwise faced resistance or low market acceptance. Owners become customers and vice versa in a variety of real estate sectors. An example of this last benefit is the online funding campaign of Kitridge Hotels & Resorts of its Hard Rock Hotel Palm Springs on Realty Mogul²⁹ in July 2014. A total of \$1.5 million in equity was raised to refinance and renovate the property. A small amount in the real estate world but in addition

to providing capital, the project garnished significant media attention for the hotel as the first-ever equity crowdfunded hotel deal in the U.S. It also provided VIP benefits to the 85 investors who participated in the offering such as free use of hotel owner poolside cabanas, a 25% discount off the best room rates, free upgrades and more.

Real Estate Crowdfunding in Canada: Canadians are just realizing the potential of this market and there are only a few licensed dealer-broker real estate platforms operating in the market today. In addition to the Syndicated Mortgage exemption, other exemptions such as the Accredited Investor exemption, Offering Memorandum exemption and the Start-Up Exemption are used to open the doors for the private capital market in Canada reaching \$150 billion and spanning a scope of 20 million Canadians who are able to qualify for debt or equity investments online.



²⁹ <http://www.crowdfundinsider.com/2014/04/36107-realty-mogul-offers-investment-hard-rock-hotel-palm-springs/>



4.6 Blockchain and Crypto ‘Crowdsales’

Blockchain, the technology that originally underpinned Bitcoin, has undergone significant improvement and can now support a variety of digital currencies. Combining advanced cryptography, computer science and game theory, blockchain technologies have a wide variety of use cases, including digital currencies and a completely new model of financial data sharing across a consortia of industry players.

Digital Currencies and ICOs: Digital currencies, the largest of which are Bitcoin and Ether, represent a new generation of monetary instruments not issued by a nation-state. You would need to go back to the 18th century to find the last time there was a significant non-state issued currency in widespread use. The most well-known crypto-currency Bitcoin, is now represented on several thousand exchanges globally, is benchmarked in value against most major state currencies, and is accepted for the use by some of the largest payments firms, including PayPal (which is owned by Ebay). Hundreds of digital currencies are traded on new digital exchanges not managed by financial institutions and tracked on services such as Coincap.io³⁰. More of these nationless digital currencies are minted monthly and a new form of funding model called Initial Coin Offering (ICO) is becoming a viable funding vehicle. Ethereum was an \$18million ICO in 2014 and a number of ICO’s in 2016 caught headlines, including The DAO, the Decentralized Autonomous Organization. Essentially, a venture fund that lived on the Ethereum public blockchain, the DAO, had

no employees but crowdfunded over \$US 150 million before succumbing to an attack.

Smart Contracts and Blockchain: Central banks around the globe are known to be considering national versions of Bitcoin. While banks are already “going digital”, central bank digital currency is expected to have a significant and disruptive impact on retail banking as we know it. Beyond enabling the secure transfer of digital currency, new generations of blockchain technology such as Ethereum now enable smart contracts, or programmable software code within the blockchain. These smart contracts are disruptive in that they enable businesses to transact and share information in new ways. For example, the largest global banks are currently engaged in a consortium facilitated by R3CEV, a new technology Start-up that is building private or permissioned blockchain solutions for inter-bank payments and many other financial use cases such as securities trading.



³⁰ <http://www.coincap.io/>



4.7 Seed Investor Perspective: Innovative Funding Models and More Liquidity

Retail Investor Participation: For new ventures, sourcing capital is challenging due to the limited size of an entrepreneur's network and amount of liquid risk capital available in the markets especially for underserved sectors, such as non-tech. While private angels, VCs and government funding programs are great sources of seed capital, investors are typically expecting a 15%+ range of return and until the recently adopted exemptions there were strict regulations that limited investor participation in private markets to less than 5% of the population. Fortunately, we are seeing more innovation in financing the growth of new companies. The emergence of equity-based crowdfunding and investment marketplaces for businesses are providing unprecedented access to deal flow and participation opportunities in variety and scale never before available to any class of investor, in particular the 'retail investor'. Investors can now select from multiple asset classes such as fixed income from debt options or long term growth strategies that equity investments can offer, and choose an investment participation level according to their appetite for risk and overall profile.

Driving Innovative Funding Models: One new innovation that is gaining in popularity is "Revenue Based Financing", also referred to as Royalty-based crowdfunding. This works for companies that are generating sales income and need capital to scale up. Instead of taking an ownership interest in a company, capital is provided in return for a percentage of sales. After a period of time, when an agreed-to amount has been received by the financier, the royalty

obligation ends. Depending on how quickly this occurs, the returns to investors are in the 15% plus range. However, the advantage to the investor is less risk and monthly cash flow. For the entrepreneur, the biggest advantage is that there is no dilution, no fussing about valuation, and no big hurry to sell out. And, unlike bank debt (which is hard to obtain), there is no fixed interest obligation since the payments are sourced from growing monthly sales.

There are two Vancouver-based companies – let's call them "new age lenders" – that are breaking ground in this area. One of these is TIMIA Capital Corp³¹ which invests in the \$1 million range to companies, typically SaaS ventures, with strong, recurring revenue growth. Another is Merchant Advance Capital³² that invests smaller amounts in smaller retail businesses. Changes in regulations and innovation in new technologies will foster the growth of new banks and new funding models to fuel companies at both the start-up and scale-up stages.



³¹ <http://www.timiacapital.com/>

³² <https://www.merchantadvance.com/>



4.8 Academia in Crowdfunding Education

Beyond academic research papers focused on the regulatory and market impacts of crowdfunding as an innovative form of aggregating capital online, the industry in academic circles is facing two underlying trends. The first one is related to the use of the crowdfunding to raise funds for educational and research projects. The second one is related to the teaching and learning of crowdfunding as an evolving discipline.

Funding Academic Community Projects: In Canada, there are a few examples where colleges and universities have launched their own funding portals or campaigns. Queen's University, for instance, launched a platform to raise funds for a cancer research project that achieved a successful outcome. Other universities such as Carleton and University of British Columbia (UBC) have launched their own multipurpose platforms that bring students, professors and alumni together to support common goals and project funding of post-secondary education and community related projects. This is an entirely new approach where alumni contributors can engage more directly and have input into the projects that they'd like their alumni dollars to be allocated towards, as opposed to writing a cheque and having a committee allocate funds on their behalf.

Enabling Crowdfunding Education: The second trend is mainly related to providing crowdfunding education at colleges and universities to students interested in entrepreneurship and learning about these emerging alternative finance funding models and markets. While there have been attempts to integrate crowdfunding topics in a wide range of programs, a fully dedicated course on the topic has yet to be offered. Sheridan

College is launching a fully dedicated course in the winter term of 2017 where students will have the opportunity to enhance their knowledge about crowdfunding with a business elective course. The first intake will be dedicated to Bachelors of Business Administration's students, but the audience could be enlarged in the future.

There have been also some individual attempts to deliver crowdfunding content conveyed in different forms (presentations, short online course, etc.), but their impact is simply limited to information and crowdfunding literacy only. They are mostly one-size-fits all courses that do not fit the need of experts who want to sharpen their knowledge in particular aspects of the discipline (e.g. compliance, risk management, etc.). The industry is in need of in-depth programs and customized courses to best accommodate other crowdfunding stakeholders.

NCFA is well aware of this educational potential and will be launching Canada's first educational FastTrack program to work directly with companies to help them prepare for active online funding rounds alongside investors. Colleges and universities in Canada should work towards stepping up the level of financial and venture funding education and move at a faster pace to reflect the evolving trends and contribute towards the growth and resilience of the crowdfunding industry. Many students stand to benefit from this education that fills a need including social economic groups that will be empowered to find the means and resources to raise capital to fund their own projects, ventures and possibly their future.



VanFUNDING 2016 Session 1 Pitching Winner:
Michael Moll (My Green Space) with session lead Hussein Hallak (Launch Academy)

[5.0 Case Studies]



Research Funding – American Gun \$1.27 Million USD



Innovation Capital – Revols \$2.5 Million USD



Equity Capital – Impak Finance at 193% of Target



Online Lender – Point of Sale Loan \$6,500 at 0% Finance



Real Estate Crowdfunding Raising \$2.8 million



5.1 Case Study – Research Funding: American Gut Raises \$1.27 Million USD



Portal	FundRazr, Vancouver, BC (Donation/rewards-based)
Company	American Gut One of the largest crowd sourced, citizen science projects in the country
Project	Model: Rewards Industry: Healthcare research (microbiome) Location: San Diego Company: American Gut Research Project, University of California, San Diego
Financing Information	Target amount: \$250,000 USD Raised amount: \$1,270,000 USD Duration: 3 years (ongoing) Location of backers: Predominantly U.S., Canada, and UK with significant contributions from approximately 20 other countries Number of backers: 8380
Project Preparation Time	2 weeks
Fees	5% transaction fee plus payment processing fee of 2.9% + \$0.30 per transaction
Portal Services	Operate a rewards-based crowdfunding campaign to fund a microbiome research project. This is likely the largest crowdfunded and crowdsourced science project in the world to date.
Insights	What happened after the campaign? The campaign is ongoing but after the initial goal was reached the organization opened additional campaigns focused on individual geographies such as British Gut, Japanese Gut, etc. Total volume raised across all of these campaigns is in excess of \$1.9M USD. Will they do it again? They will and believe that many more scientific projects will begin to fund this way. What would they have done differently? More structured press coverage and more logistics support. At times, the media interest overwhelmed the team's ability to respond. The excitement and demand for the product also strained the ability of the team to ship to customers within timeframes that satisfied everyone.



5.2 Case Study – Innovation Capital: Revs Start-up Raises \$2.5 Million USD



Revs - Premium Quick Custom-Fit
Wireless Earphones

Montreal, Canada Sound

\$2,530,756

pledged of \$100,000 goal

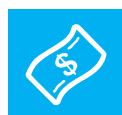
10,569

backers

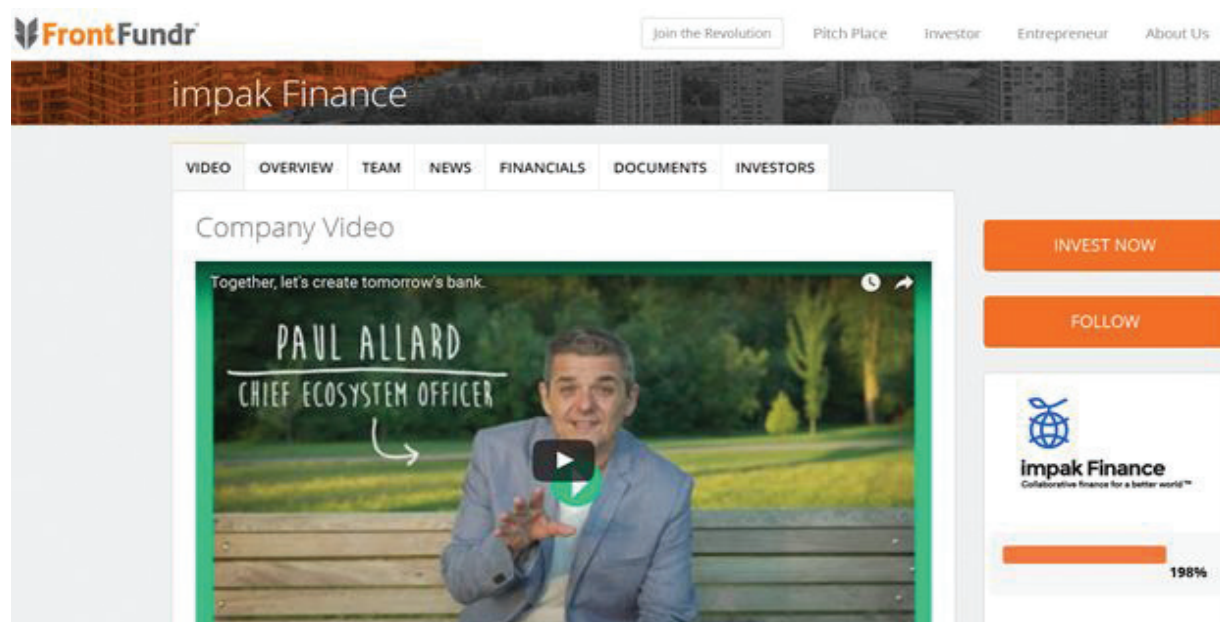
Portal	Kickstarter, Brooklyn, New York (Rewards / pre-sale)
Company	Revs, Montreal, Canada
Project	<p>Name: Revs – Premium quick custom-fit wireless earphones Industry: Consumer Electronics Date Launched: November 9, 2016 Description: Your search for the perfect pair of earphones has finally come to an end! Revs are the world's first Quick Custom-Fit Wireless Earphones that mold to the unique shape of your ears in exactly 60 seconds. The coolest part? The entire molding process is controlled by YOU using our companion app on your phone! These revolutionary earphones are designed to provide you with the perfect fit, delivering the unparalleled comfort and sound you've been searching for. Compromising on nothing, Revs bring you the same comfort benefits as traditional custom-fit earphones while saving you tons of time and money.</p>
Financing Information	<p>Target amount: \$100,000 USD Raised: \$2,530,756 USD Duration: 60 days (November 9, 2015 – January 8, 2016) Average Pledge: \$190 Min-Max: \$1 - \$3,000 Total Backers: 10,569 Top countries where backers came from:</p> <ul style="list-style-type: none"> • United States (4,203 backers) • Canada (913 backers) • United Kingdom (642 backers) • Australia (542 backers) • Germany (412 backers) • Singapore (376 backers) • Japan (337 backers) • Netherlands (242 backers) • Switzerland (231 backers) • Hong Kong (198 backers)

Portal	Kickstarter, Brooklyn, New York (Rewards / pre-sale)
Company	Revs, Montreal, Canada
Project	<p>Name: Revs – Premium quick custom-fit wireless earphones³³</p> <p>Industry: Consumer Electronics</p> <p>Date Launched: November 9, 2016</p> <p>Description: Your search for the perfect pair of earphones has finally come to an end! Revs are the world's first Quick Custom-Fit Wireless Earphones that mold to the unique shape of your ears in exactly 60 seconds. The coolest part? The entire molding process is controlled by YOU using our companion app on your phone! These revolutionary earphones are designed to provide you with the perfect fit, delivering the unparalleled comfort and sound you've been searching for. Compromising on nothing, Revs bring you the same comfort benefits as traditional custom-fit earphones while saving you tons of time and money.</p>
Financing Information	<p>Target amount: \$100,000 USD</p> <p>Raised: \$ \$2,530,756 USD</p> <p>Duration: 60 days (November 9, 2015 – January 8, 2016)</p> <p>Average Pledge: \$190</p> <p>Min-Max: \$1 - \$3,000</p> <p>Total Backers: 10,569</p> <p>Top countries where backers came from:</p> <ul style="list-style-type: none"> • United States (4,203 backers) • Canada (913 backers) • United Kingdom (642 backers) • Australia (542 backers) • Germany (412 backers) • Singapore (376 backers) • Japan (337 backers) • Netherlands (242 backers) • Switzerland (231 backers) • Hong Kong (198 backers)
Project Preparation Time	<p>Preparation Time: 3 Months. We hired a marketing director who oversaw the entire operation. We worked with public relations, marketing and design companies.</p> <p>Steps:</p> <ul style="list-style-type: none"> • Create a following on social media • Meet with media to demo the product (make sure that there is an embargo set to the day of launch) • Make sure all Kickstarter material is ready 2 weeks in advance (this includes images, all descriptions and everything else that goes onto the page) • Get it approved by Kickstarter • Make sure you are raising in USD (not so easy via Kickstarter but we thought that would be necessary) • Create a huge buzz on launch • Start working with a marketing/advertising company roughly 21 days prior to campaign ending
Fees	Portal services provided and Fee: 8% (5% Kickstarter + 3% Credit Card processing)
Insights	<p>What happened after the campaign: We are currently in the process of ramping up for manufacturing with the intent to deliver our product in March 2017.</p> <p>Would they do it again?: Yes, we would definitely do it again as it was amazing way for us to validate our product and create traction and visibility.</p> <p>What would they have done differently?: Although difficult to see the future, we would likely have ramped up our internal team even sooner, once we knew the funding was a success. This would have allowed us to progress even quicker.</p>

³³ <https://www.kickstarter.com/projects/revs/revs-premium-quick-custom-fit-wireless-earphones/description>



5.3 Case Study – Impak Finance 193% of Equity Crowdfunding Target



Portal	FrontFundr, Vancouver, B.C. (Equity Platform)
Company	Name: Impak Finance ³⁴
Project	<p>Type: Equity offering</p> <p>Industry: Banking, Technology</p> <p>Description: Impak Finance wants to create the first socially responsible Canadian bank that will grant 100% of its loans to profitable companies that make a positive impact on our society and the environment. Introducing "the bank of tomorrow".</p>
Financing Information	<p>Target amount: \$500,000</p> <p>Duration: 60 Days (October 12, 2016 - December 12, 2016)</p> <p>Investor Profile:</p> <ul style="list-style-type: none"> • Total number of investors: Currently, 1,500 investors • Location of investors: Across Canada, but majority in Quebec • Type of investors: Any Canadian • Amount invested: Currently 193% funded - \$965,000 • Minimum investment: \$100 • Maximum investment: \$5,000,000

³⁴ <https://www.frontfundr.com/Entrepreneur/Company/1368>

Portal Services Provided & Fees

Marketing and promotion through FrontFundr platform, social media, and other communication channels

Support and guidance through the entire crowdfunding cycle so companies can continue to focus their efforts on business growth

Community access to capital by means of a wide and continually growing investor pool

Fees are dependent on the exemption used by the company (Start-up crowdfunding exemption; crowdfunding exemption; or offering memorandum exemption). Impak Finance uses the Offering Memorandum making it available for everyone and includes (in brief):

- Company listing on Prospect Lounge (stage previous to Pitch Place/launching active campaign);
- Full due diligence analysis;
- Pitch Place listing;
- Marketing/branding/promotion;
- Investor on boarding/processing

Insights

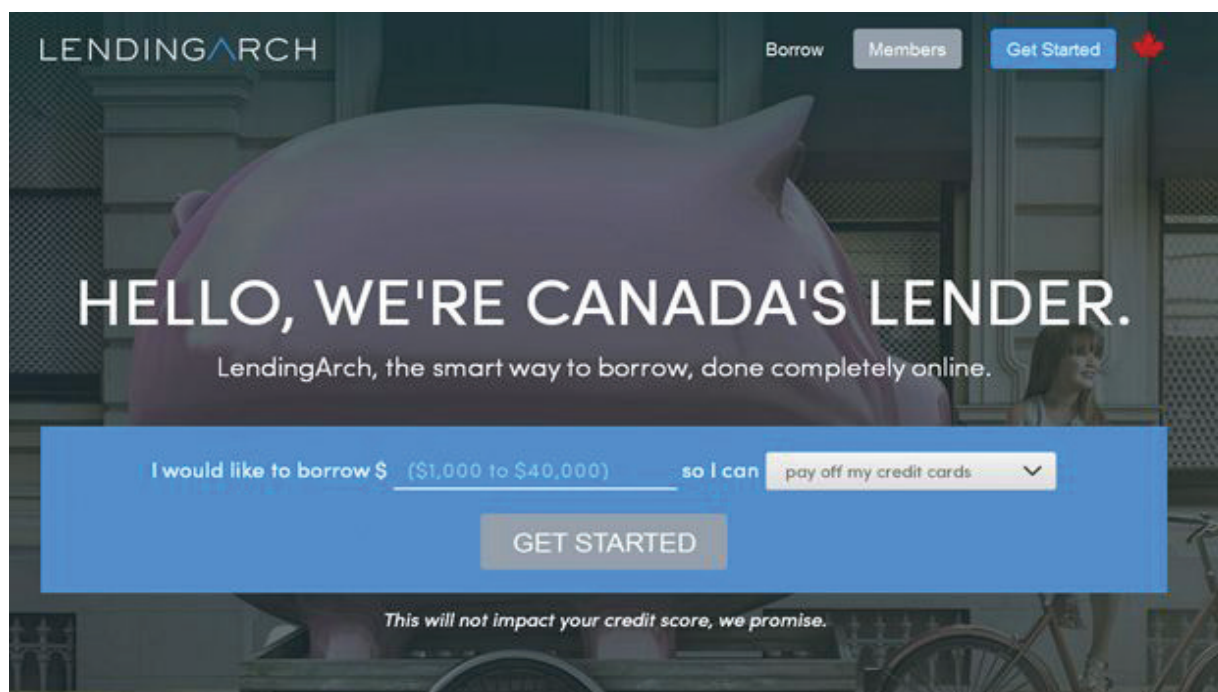
What happened after the campaign? The campaign is still active and planned to close on December 12, 2016.

Any insight on the impact? Impak Finance raised the largest single-day amount for their FrontFundr campaign. At 193% funded and one month to go until their campaign closes, there's no questioning the impact and 'ripple effect' Impak has created through its fresh approach to banking.





5.4 Case Study – Point of Sale Loan: \$6,500 with 0% Financing



Portal	Portal LendingArch, Calgary, Alberta (Point of Sale Financing Platform for Healthcare, Retail, Vehicle and Home Improvement)
Customer Type	Patient who is seeking to finance a Hearing Aid
Financing Information	<ul style="list-style-type: none"> • Target Loan amount: \$6500 • Raised Loan amount: \$6500 • Customer loan terms: 0% financing to patient, 12 month term • Duration (days to fulfill): 1 days (from application to funds received) • Preparation time and steps: 15 minutes
Portal Services Provided & Fees	<ul style="list-style-type: none"> • Portal services and compliance undertaken: ID Verification, Credit Check, Digital Loan Documents Reps and Warrants on the Loan • Portal fees: 0% APR (None to the patient (no origination fees to the borrower))
Insights	<p>Did the borrower pay back on time? No missed payment thus far</p> <p>Any insights on the impact of the loan: The patient was thrilled with the experience. The clinic realized a sale that would have otherwise been lost due to lack of funds available by the patient. There has been a 20% increase in merchants/clinics that offer flexible payment solutions such as LendingArch Patient Solutions.</p>



5.5 Case Study – Real Estate Crowdfunding: R2Crowd Actively Raising \$2.8 Million



Live

N. 36th St and Palm Lane, Phoenix AZ

IRR 39%
 Asset Land
 Proposition Construction
 Offering Preferred Equity
 Term 2 Years
 Type Accredited Investors
 Min Amt \$10,000




Live

304 & 414 Victoria Avenue North, Hamilton, ON

IRR 13%
 COC 7%
 Asset Medical Office
 Proposition Stabilized
 Offering Equity
 Term 5 Years
 Type Accredited Investors
 Min Amt \$10,000

R²CROWD

A strategic partner with  JLL

Portal	R2 Crowd, Real Estate Debt and Equity Crowdfunding platform, Toronto, ON
Project 1	<ul style="list-style-type: none"> Company: RAS Developments Industry: Real Estate – New Development – Single Family Residential Model: Equity Location: N. 36th St. and Palm Lane, Phoenix, AZ
Financing Information	<ul style="list-style-type: none"> Total Target amount: \$1,400,000 USD Raised amount: \$780,000 USD R2 Crowd Raising: \$500,000 USD Duration: 2 years Location of backers: Predominantly Canada and US Number of backers: +10
Project 2	<ul style="list-style-type: none"> Company: Gross Capital Group / Prime Real Estate Group Industry: Real Estate – Stabilized – Medical Office Model: Equity Location: 304 and 414 Victoria Avenue North, Hamilton, ON
Financing Information	<ul style="list-style-type: none"> Total Target amount: \$14,100,000 CAD Raised amount: \$11,800,000 CAD R2 Crowd Raising: \$2,300,000 CAD Duration: 5 years Location of backers: Predominantly U.S., Canada Number of backers: +50
Portal Services Provided & Fees	<p>Portal services: R2Crowd is a debt and equity commercial real estate funding portal.</p> <p>Project preparation time: 2 weeks</p> <p>Fees: 5% to 10% transaction fee payable by the Issuer / Sponsor</p>
Insights	<p>What happened after the campaign? The campaign is ongoing but after the initial goal is reached the investors receive ongoing cashflows depending on the project metrics.</p> <p>Will they do it again? Yes, absolutely!</p> <p>What would they have done differently? More webinar and investment seminars.</p>

6.0 Market Size and Prediction



Alternative Finance Crowdfunding Models



Market Size



Market Growth Prediction



US Title III, Retail Investor Learnings



6.1 Alternative Finance Crowdfunding Models

With investment dollars pouring into fintech businesses globally (\$16.5 billion in the first 9 months 2016, Accenture³⁵), innovative funding models are being developed in emerging alternative finance markets, limited by the rate of market adoption

(usage) and sustainability and corresponding regulations. Today, the mainstream crowdfunding and investment crowdfunding models fall into two types of categories: Non-regulated and regulated.

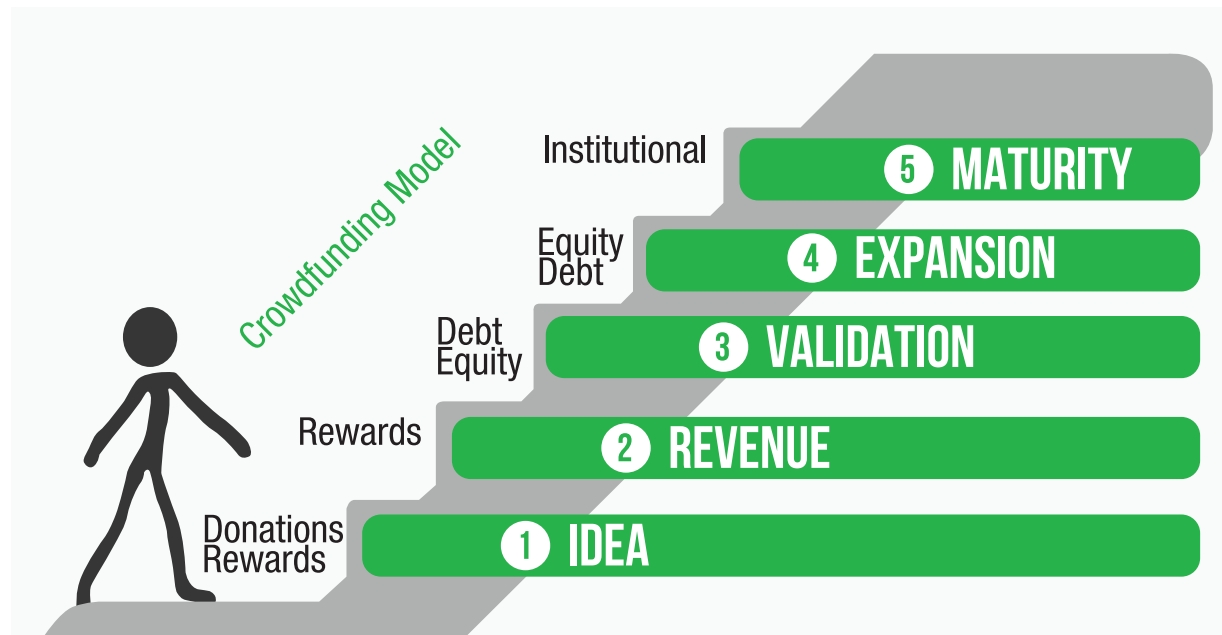
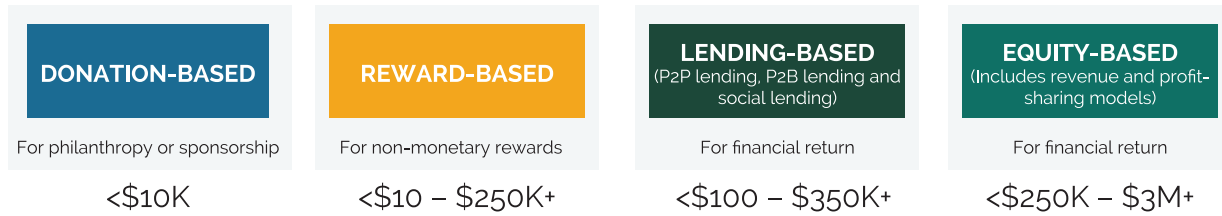
TYPE	MODEL	DESCRIPTION
Non-Regulated	Donation	Donors give capital to fund typically non-profit, charitable or personal causes. There is not always a reward associated beyond the gratitude of the issuer and there can be a tax deduction in certain cases.
	Rewards	'Backers' contribute capital in exchange for a reward in the form of current or future goods and/or services. This reward is often, but not always, the product/service being produced.
Regulated	Equity	Investors provide larger amounts of capital in exchange for a small portion of the equity, or ownership, in the company itself. In this type of crowdfunding, issuers (usually entrepreneurs) can set a minimum pledged amount, establish investment caps and approve or deny investors who wish to view their business documents.
	Lending	Lending based crowdfunding generally means that issuers raise funds in the form of loans which they will pay back to lenders over a pre-determined timeline and at a set interest rate. Peer-to-peer lending is the practice of matching borrowers and lenders through online platforms.
Possibly Regulated	Hybrid and New Funding Models	Hybrid funding models include any innovative models that don't quite fit into a typical equity or debt transaction, such as blockchain Initial Coin Offerings (ICOs), royalties or blended equity/reward models.

From Start-ups to Scale-ups, The Funding Escalator:

Often, a combination or variety of funding models are used over time depending on the development stage and capital requirements of the venture; this crowdfunding model can be described as a 'funding escalator' as per the graphic below. Very early stage start-ups who are at ideation phase, for example, typically launch donation/reward-based campaigns to vet their ideas, products and services with an

equivalent early adopter backer market. As ventures begin to gain a better understanding of their product with respect to market fit and addressable market, they are in a better position to structure equity or debt-based crowdfunding financing rounds. Ultimately, as successful ventures grow their capital requirements are more intensive and they move upstream to larger private capital pools and then into public and mainstream markets.

³⁵ <http://ncfacanada.org/investment-pouring-into-chinese-fintechs/>



Source: Crowdfund Suite

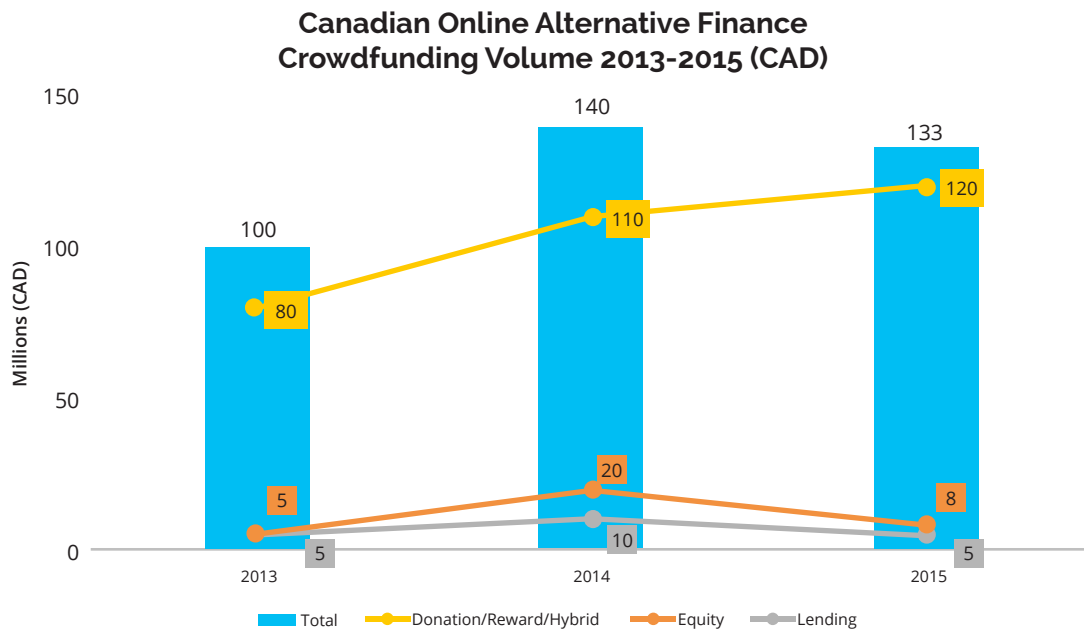




6.2 Market Size

The total Canadian market grew significantly from 2013 to 2014, from \$90 million to \$140 million, a more than 50% increase. The market in 2015 appears to remain similar in size to that of 2014.

However, it possible that the second half of the year was likely much more active than the first half and the extrapolated market size of 2015 may not fully reflect the total market volume.



	DONATION/REWARD/HYBRID	EQUITY	LENDING	TOTAL
2013	80	5	5	90
2014	110	20	10	140
2015	120	8	5	133

Donation/Reward Models Currently Dominate: Donation/reward/hybrid portals continue to witness steady growth in terms of capital raised, from \$80 million in 2013, to \$110 in 2014 and \$120 in 2015. This trend is quite similar to that of the U.S. and U.K.

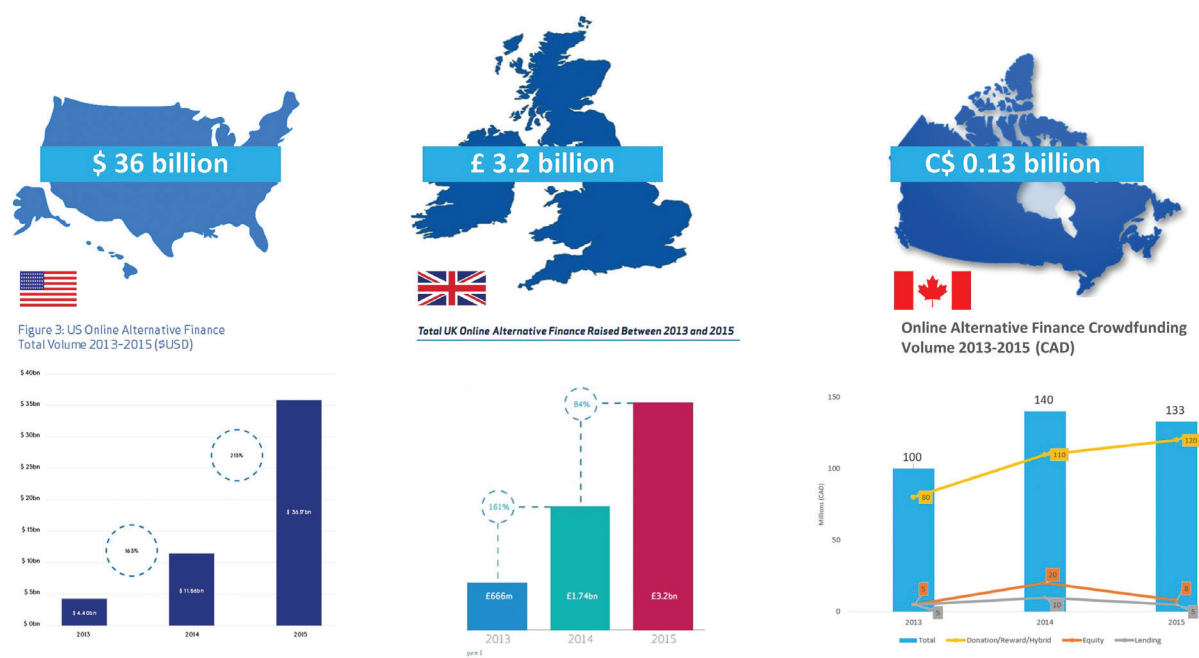
markets shown in other studies. These numbers reflect a long tradition of using crowdfunding for social/community causes in Canada. Canadian crowdfunding markets continue to be dominated by the donation/reward segment which is an 'inverted

market' scenario compared to what is happening in the U.S. and U.K., where lending and equity based models not only have an overwhelmingly larger value but also account for the majority of the market.

Canada is 'Punching' Below its Weight

Compared to International Markets: The total Canadian market remains noticeably smaller than that of the U.K. and U.S. and is growing at a slower rate. This is arguably attributable to Canada being

slower to adopt the usage of online alternative finance models, relatively smaller population counts and levels of risk capital and Canada's multi-provincial regulatory environment. A recently published study by the University of Cambridge and partners benchmarked the U.S. online alternative finance industry at \$36 billion in 2015 (see Figure 3: US Online Alternative Finance Total Volume)³⁶. For further comparison, U.K. equity-based crowdfunding grew from GBP 84 million in 2014 to GBP 332 million in 2015.



Market Making Challenges for Regulated Platforms:

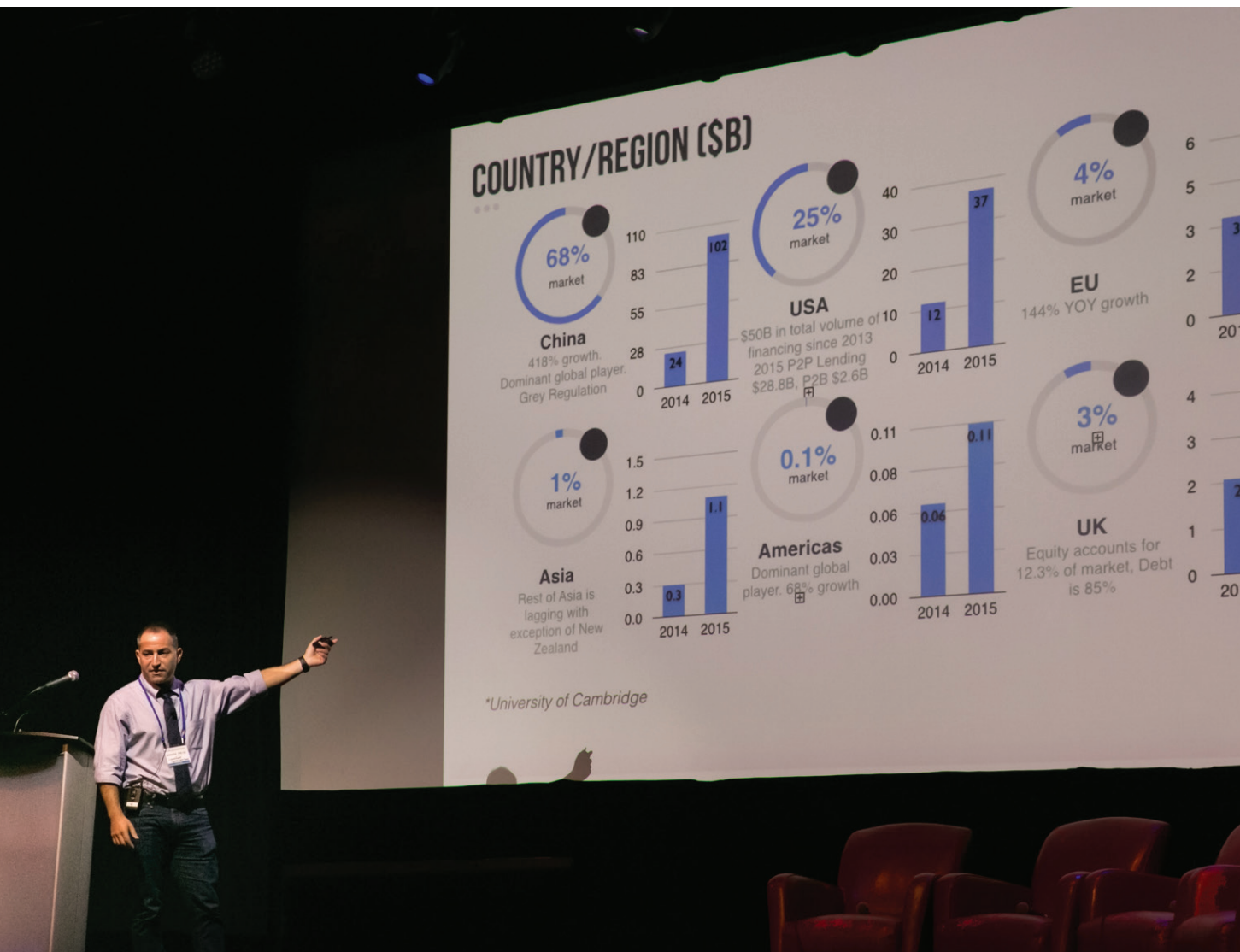
While Canadian regulated crowdfunding platforms have experienced growth, going from almost non-existent in 2013 to more than \$5 million in 2015, this growth appears to be subject to considerable fluctuations which can be attributed to a number of factors. First, there were only a handful of operating funding portals and exempt market dealer (EMD) platforms operating in the sector at the time of survey data collection.

(NB: The first lending-only platform opened in the fall of 2015. The reported lending activity in earlier years is from hybrid platforms). Second, the activities of other alternative financing channels for start-ups, such as Angel, VC development, incubators and accelerators also play a role and impact the overall funding ecosystem. Finally, the influence of the legislative and regulatory environments account for another important factor.

³⁶ https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-americas-alternative-finance-benchmarking-report.pdf

Policy Makers Impact and Need for Uniformity for Competitive Crowdfunding Regulations: Canadian regulations on equity and lending crowdfunding models are still emerging and under considerable close watch by regulators and early adopters. Furthermore, regulations vary across a number of exemptions adding an additional burden on portal operators in terms of compliance and educating issuers and investors. The differences between the Canadian market and the U.S. and U.K. markets

point out an opportunity for Canadian platforms and investors, as well as challenge for policy makers if Canada intends to create a competitive environment. Having one securities regulator would be a positive step. NCA welcomes the commitment of the Capital Markets Authority Implementation Organization (CMAIO³⁷, Chaired by Mr. William Black) to make uniformity of crowdfunding regulations a priority. This is consistent with projected strong equity crowdfunding growth in 2016.



³⁷ <http://ccmr-ocrmc.ca/capital-markets-regulatory-authority-initial-board-directors-new-implementation-timelines-announced/>

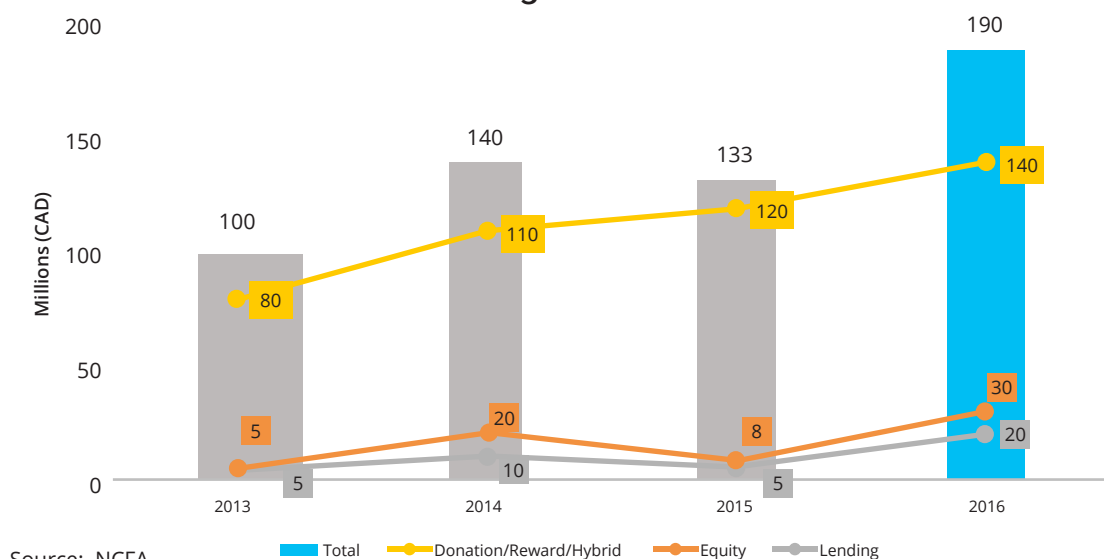


6.3 Market Growth Prediction

The market is forecast to grow from \$132 million in 2015 to \$190 million in 2016, an increase of more than 40%. Specifically, donation/reward/hybrid crowdfunding will increase by almost 17%, from \$120 to \$140 million, equity crowdfunding will almost triple in size, going from \$8 million to \$30 million, and lending crowdfunding will quadruple in size, increasing from \$5 million to \$20 million.

The donation/reward model will continue to be the largest segment of crowdfunding. The predicted growth of the overall Canadian market reflects the overall worldwide growing trend. Yet, is it worth noting that the market size will still be considerably smaller than that of other leading developed countries.

Canadian Online Alternative Finance Crowdfunding Volume 2016 (CAD)



	DONATION/REWARD/HYBRID	EQUITY	LENDING	TOTAL
2016	140	30	20	190

Accelerating Growth: The anticipated growth is due to a number of factors, including: the continuing popularity of crowdfunding as an alternative fundraising method, better awareness of how crowdfunding works, and the creation of new market making platforms. The growth rate of equity and lending online platforms is likely to accelerate over time, in the near term as well as over the medium term (next three to five years). As the investment crowdfunding industry gains more credibility as a viable

source of funding, and the model gets stress tested by the market, investors will gain increased confidence in the mechanisms and approach towards participating in online financings. In addition, regulations are becoming clearer and more comprehensive. Regulators such as the Ontario Securities Commission have now set up compliance (and enforcement) regimes to monitor equity, debt and emerging fintech models which will further strengthen investor confidence in the industry.



6.4 US Title III, Retail Investor Learnings

With non-accredited investor equity crowdfunding recently being 'green lit' in the U.S. markets (e.g. Title III of the JOBS Act³⁸), Canada is expected to receive positive spill-over benefits from the increased awareness as the markets begin to form and education moves to standardize the process. New research from Title III (Reg. CF) market analysis from Crowdfund Capital Advisor³⁹ highlights learnings that show a logical progression of the U.S. retail market.

- That retail investors are approaching the opportunity with 8x as much capital as donation crowdfunding;
- Valuations for successfully funded companies signal that retail investors are not getting a worse deal than Angels or VCs;
- You cannot crowdfund without a crowd;
- If you are raising over \$200,000 and have a sizable crowd in place it is possible to generate more capital without necessarily having to increase the size of your social network that much;
- The average number of investors in successful equity crowdfunding campaigns was 279 who had an average investment of \$863 each; and
- The average valuations of all Reg. CF companies that listed in the U.S. thus far is \$6.4 million (see chart below);
- Total capital commitments from May 16 to Nov 28, 2016 are \$16 million USD (see chart below).

DATA/ANALYSIS VALUATIONS

- ✓ **\$5M vs \$6M**
The **median** valuation of all companies selling equity using Reg CF vs those that were successfully funded
- ✓ **\$6.4M vs \$9.3M**
The **average** valuation of all companies selling equity using Reg CF vs those that were successfully funded
- ✓ **2 Outliers**
Green Sense Farms @ \$56.3M
Sondors Electric Car @ \$32.4M
- ✓ **Lesson**
Campaigns that hit their minimum funding targets have both higher median and average valuations

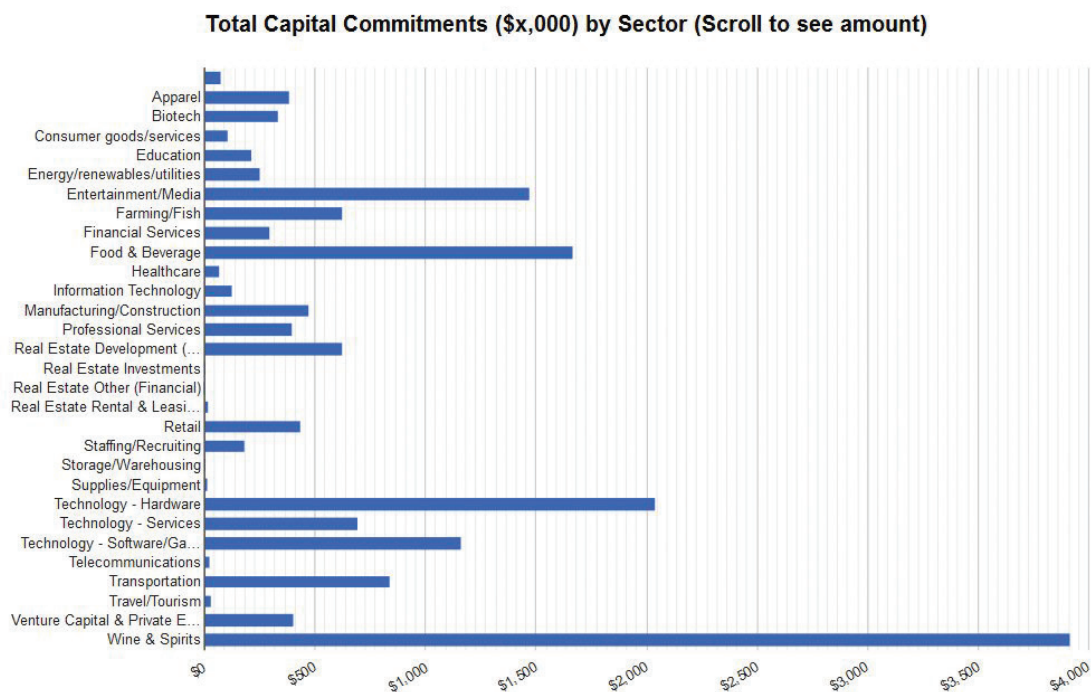
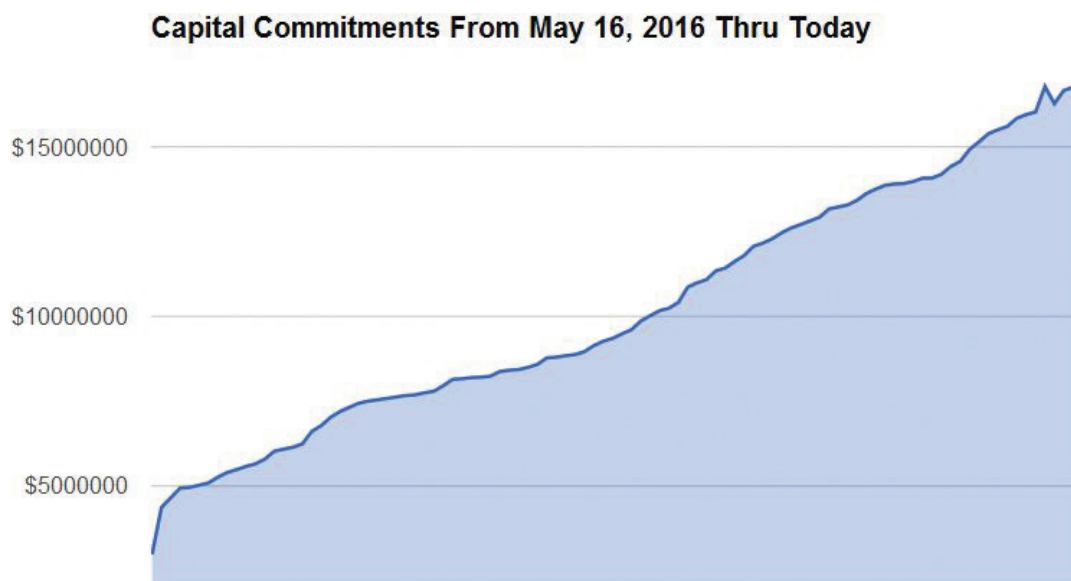


Crowdfund Capital Advisors All Rights Reserved

³⁸ <https://www.sec.gov/news/pressrelease/2015-249.html>

³⁹ <http://crowdfundcapitaladvisors.com/>

Total Committed Capital as of Nov-2016: The following chart shows the total amount of committed capital to all campaigns raising funds under Regulation Crowdfunding since May 16, 2016 (source: Crowdfund Capital Advisors).



Source: Crowdfund Capital Advisors

Competition and International Brands:

Internationally branded funding platforms moving into Canadian markets will pose stiff competition for local operators. The opportunity for cross-border partnerships are ripe and will be closely monitored in 2017. It should be noted that regulated markets, in particular, are subject to being impacted by shifting political landscapes and economic conditions. In the U.K. for example, recent data published by Altfi

financial analytics provider indicate a slowdown in equity crowdfunding activity on top platforms in Q3-2016 due to the impact of Brexit.⁴⁰ In terms of risks in donation/reward markets, there are a handful of branded, heavily backed platforms such as Kickstarter, Gofundme and Indiegogo which tend to dominate the market volumes, so local platforms may find it increasingly difficult to compete on similar terms with the larger players.



Murray McKercher @MurrayMcKercher · 17h

















These folks know **#crowdfunding** and **#Fintech** is disrupting **#startup** financing globally, and big time in **#canada**

4 19

⁴⁰ <http://ncfacanada.org/altfi-data-sees-uk-equity-crowdfunding-market-shrinking-in-2016-for-first-time/>

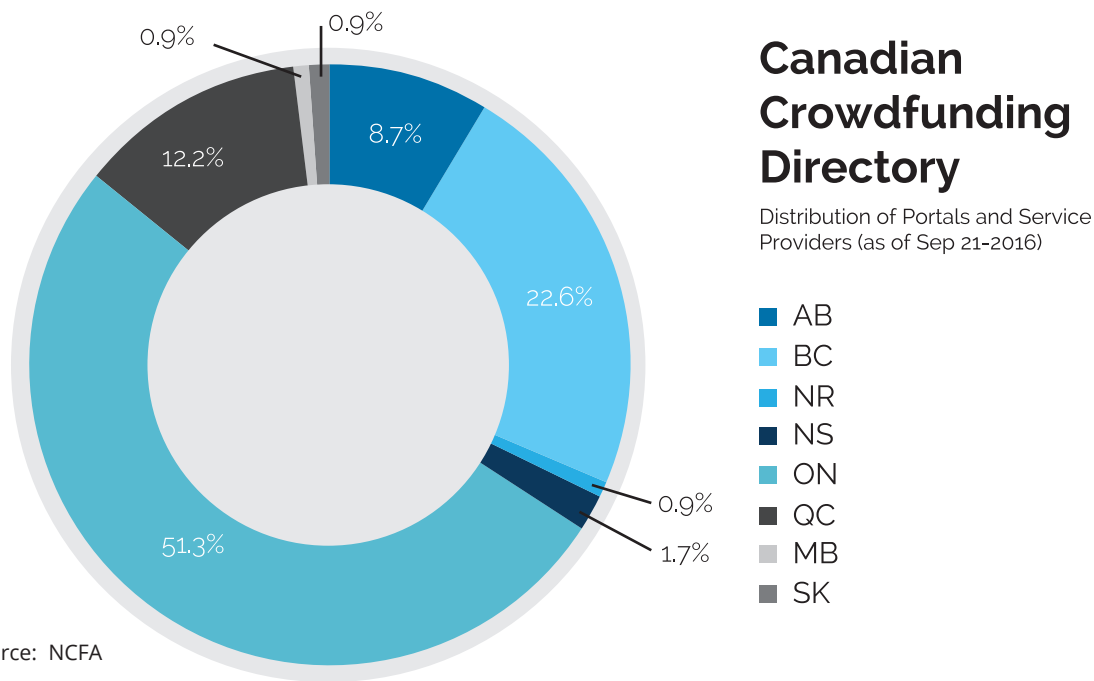
7.0 Funding Platform Characteristics



	Platform Business Models		Due Diligence
	Platform Registration Status		Communication between Investors and Issuers
	Number of Employees		Compliance Expenditures
	Fundraising Model		Funds Raised by Sector
	Fee Model		Number of Issuers
	Advertising		Number of Investors
	Cross Border Activity		Investor Profiles
	Services		Total Funding Volume Across Platforms

Canadian Platform Directory: NCFA has been tracking the adoption, growth and survival rate of online funding platforms in Canada since 2013 and publishes and maintains the current 2016 Canadian Crowdfunding Directory⁴¹. In Canada, there are less than 100 online funding platforms with the following provincial distribution (see image below). The majority of platforms in Canada are donation/

reward-based (62), followed by equity portals (18) and then lending (8). In addition to specific models, crowdfunding platforms can be identified as 'general purpose' or more increasingly are focused on a particular vertical or niche sector such as technology-focused, real estate, entertainment, non-profit, sports athletes or personal causes.



REGION	PORTAL	EQUITY	LENDING	SERVICE	*TOTAL	%TOT
AB	5	1	1	3	10	8.7%
BC	10	6	2	8	26	22.6%
NB	1				1	0.9%
NS	2				2	1.7%
ON	32	9	5	13	59	51.3%
QC	9	2		3	11	12.2%
MB	1			0	1	0.9%
SK	1	0		0	1	0.9%
NWT	1				1	0.9%
Total	62	18	8	27	115	100.0%
*Includes active and beta portals and services providers in Canada						

⁴¹ <http://ncfacanada.org/canadian-crowdfunding-directory/>

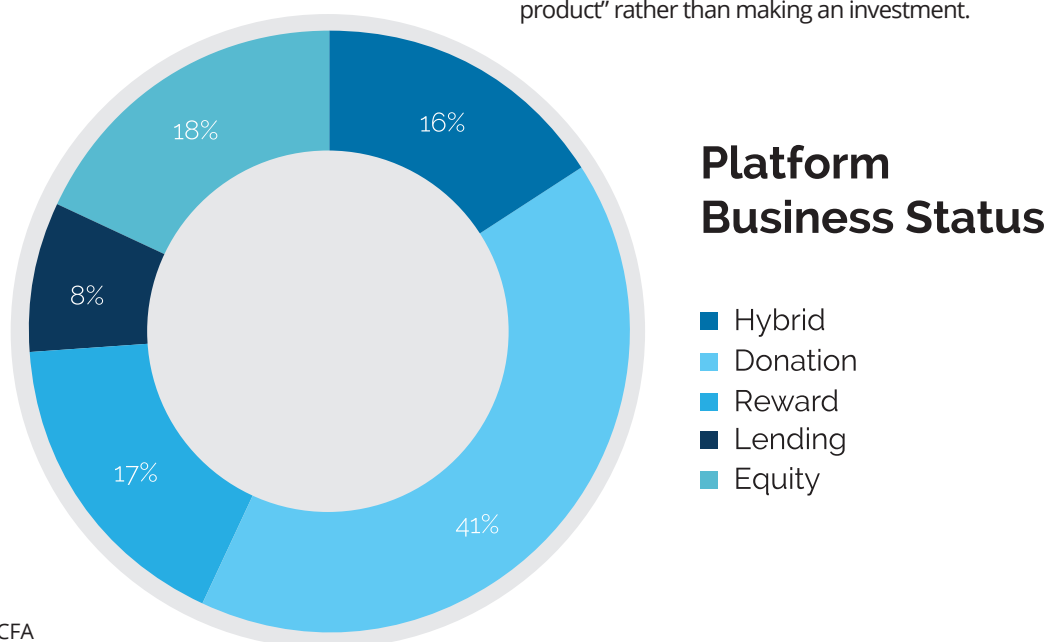


7.1 Platform Business Models

Analysis: Platform business models defined in this survey include: donation-based, reward-based, equity-based, lending and hybrid crowdfunding. Platforms generally operate under one primary model (which is typically associated with the type of regulatory oversight and/or exemption that they use to facilitate the distribution of securities or loans), although licensed Exempt Market Dealers (EMDs) that are more traditional (yet still moving their practice online) will offer structured products (e.g., blend of equity/debt/royalty units). In this survey, platforms were asked to self-identify with the model in which they operate. Among the respondents, 18% chose equity crowdfunding as their main business model, 8% identify themselves as lending crowdfunding platforms, while 41% mainly focus on donation. As for the remainder, 17% self-identified as rewards crowdfunding platforms and 16% said that they mainly have a hybrid business model.

More Platforms and Awareness Equals More Funding Volume:

The platform business model finding corresponds quite consistently with the crowdfunding type finding. That is lending and equity platforms account for a smaller number of platforms surveyed and currently contribute a smaller percentage of the overall crowdfunding market. While marketplace lending and peer-to-peer debt-based crowdfunding models are in their infancy they are growing rapidly in Canada and quickly becoming entrenched in the financial ecosystem. It takes time to build an investment marketplace with both issuers and investors (accredited and retail) to raise the kind of investment minimums that issuers are seeking from equity markets. Comparatively, reward or presale markets have been popular due to the awareness of U.S.-based portal giants like Kickstarter and Indiegogo. Physical products, especially innovative ones, are often easier to sell via pre-sale or post-sale e-commerce to average consumers because they are “pre-buying a product” rather than making an investment.



Source: NCFA



7.2 Platform Registration Status

The four registration platform status options defined in this survey are: exempt market dealer,

restricted dealer, registration not required and in application.

Exempt Market Dealer (EMD) Dealer-Broker	Exempt market securities dealers registered under provincial securities legislation in one or more jurisdictions in Canada.
Restricted Dealer (known as a "Funding portal")	Specialized type of restricted dealer that can only rely on the crowdfunding exemption to facilitate distributions of simple securities and their review of issuers will be limited in comparison to the know-your-product obligations of investment dealers and exempt market dealers relying on the crowdfunding exemption
Registration not Required	If portals are not involved in the exchange of securities, facilitation of debt financing exchange, or offer of investment strategies, they are not required to register as a dealer-broker or as a funding platform. In other words, portals simply act as a matchmaker and do not issue securities of any kind.
In application	Temporary status to reflect that these portals have submitted an application with one or more provincial securities regulators and/or other financial regulatory bodies, and if approved, will become a registrant (registered platform) with the ability to issue securities with a license subject to the appropriate restrictions.

Analysis: The finding indicates that the majority of the platforms (63%) are regulated platforms under the status of restricted dealers and EMDs and "in application". "In application" platforms are potentially-regulated platforms, which are also the largest representation on the pie chart. Non-regulated operators account for 37% of the platforms surveyed (donation/reward models). Each Dealer will operate out of a 'home province' while participating in various provinces within which they are licensed to operate. However, they must apply in each province to acquire a license (e.g. form and application, approval process). Overall, the platform business model and registration status composition

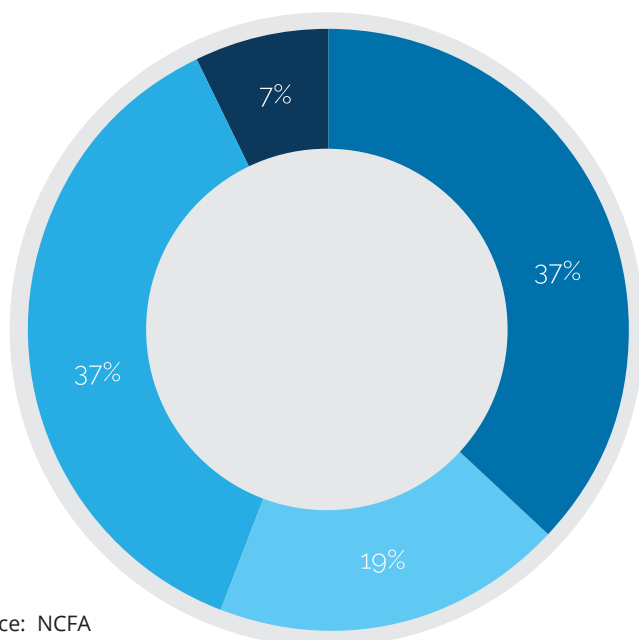
point toward a potential increase in equity-base and lending crowdfunding, which is the leading segment of the crowdfunding market in the U.S. and U.K.

Efficiency of Registration is Key to Market

Formation: It is important to note that registering as a licensed EMD takes significant effort, capital markets financial literacy, capital commitment, resources, as well as time. Having said that, the registration process itself should not be a burden to prospective registrants. Some regulators have advised that the normal turnaround period for registration is approximately 3 months in length, and generally speaking the more innovative the business

model that you submit with your application, the longer it takes to move through the process. Industry experts have highlighted in some cases that the process took much longer than expected

(e.g. 9 months) which can negatively impact a portal's ability to efficiently plan its market launch in a timely fashion.



Platform Registration Status

- Exempt market dealer
- restrict Dealer
- registration not required
- In application

Source: NCFA

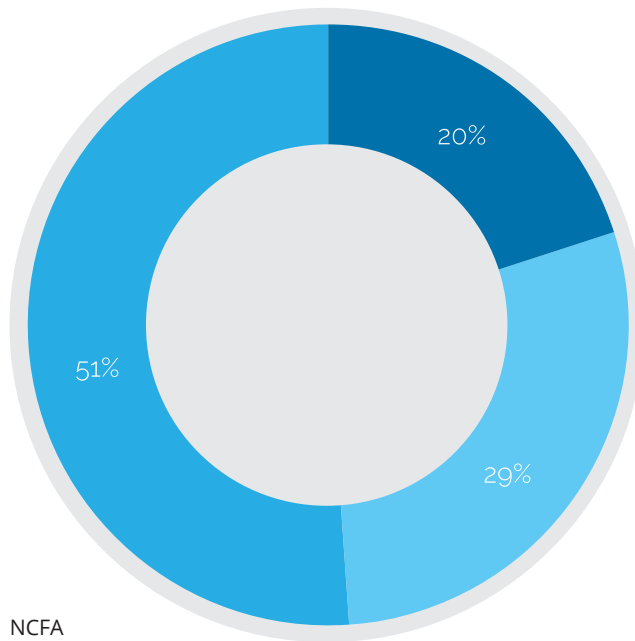




7.3 Platform Number of Employees

Analysis: The average number of employees is 8.8 per platform and the median is 5 employees per platform. Almost half of the platforms surveyed indicated that they expect an increase in number of employees in the near future. This is a positive signal and indicates that well-capitalized groups and/or platforms experiencing sufficient traction to expand operations beyond bootstrap phase do

indeed exist. In addition, the expected increase in number of employees is also correlated with the Canadian crowdfunding industry moving toward lending and equity based crowdfunding. This is because marketplace lending operations tend to require much higher employee count to manage forex, credit risk, capital supply, clearing house functions, analyst type work, etc.



Platform employees

- significantly increase
- slightly increase
- the same

Source: NCFA





7.4 Platform Fundraising Model

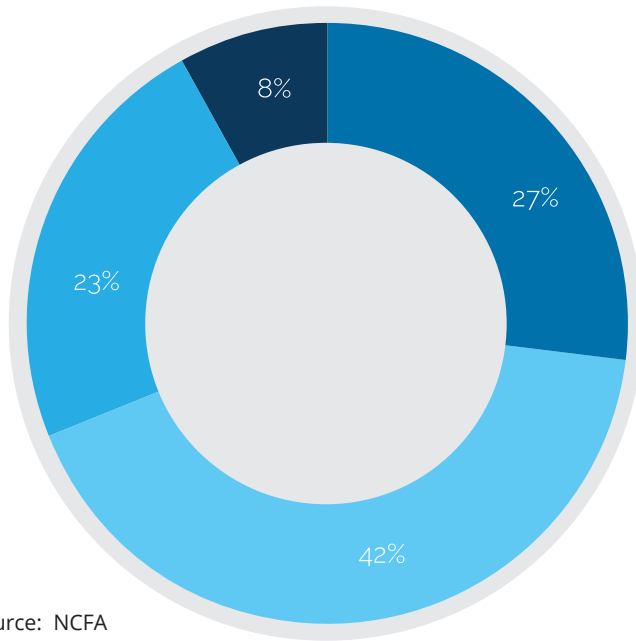
Analysis: Four categories of fundraising model were included in this survey: All or nothing (27% of the responding portals), flexible - you choose (42% of the responding platforms), keep it all (23% of the responding portals) and other (8% of the responding platforms).

Non-Regulated Campaigns Rely on 'Keep it All'

Funding Models: Equity crowdfunding transactions follow 'all or nothing' funding models since investors

need to be assured that a business can implement their business plan with the appropriate capital as per the use of proceeds outlined in key material documents of the business. This is different than non-regulated crowdfunding models which typically rely on 'flexible' or 'keep it all' funding models. Given that the Canadian markets are currently dominated by donation/reward-based funding models, it comes as no surprise that the largest percentage of portals use the flexible fund raising model.

All or Nothing	The issuer sets a fundraising goal and receives nothing unless the objective is achieved. Money from backers is collected only if a pre-determined minimum amount has been pledged. If this goal is not met, no money is collected
Keep it All	The issuer sets a fundraising goal and keeps the entire amount raised regardless whether or not they meet their pre-determined goal. The funds collected (minus the commission) will be given to the issuer. If the issuer finds that this fund is insufficient with respect to his/her objective, the issuer may want to refund the pledged money to the backers
Flexible - you choose	You choose if you want All or Nothing or Keep it All
On-demand Funding and Other	Portals continue to have a number of other fundraising models to accompany the needs and objectives of issuers and backers. Continuous funding or post-creation services are a few examples. Continuous crowdfunding allows for continuous contribution. This form of crowdfunding tends to apply to arts projects or for issuers who create content on a regular basis. The frequencies of contribution can vary from campaign to campaign. Post-creation service is the type of crowdfunding that invites backers to pledge support after the issuer already published his/her work.



Platform Fundraising Model

- All or nothing
- Flexible - you choose
- Keep it all
- Other

Source: NCFA





7.5 Platform Fee Model

The survey specified five types of fee structures and Canadian portals appear to use all of them. That is to say, there are a number of ways platforms are monetizing their operations. In addition, many

platforms offer services or partnered services to facilitate preparation, compliance and post-funding requirements involved with sourcing capital via online platforms.

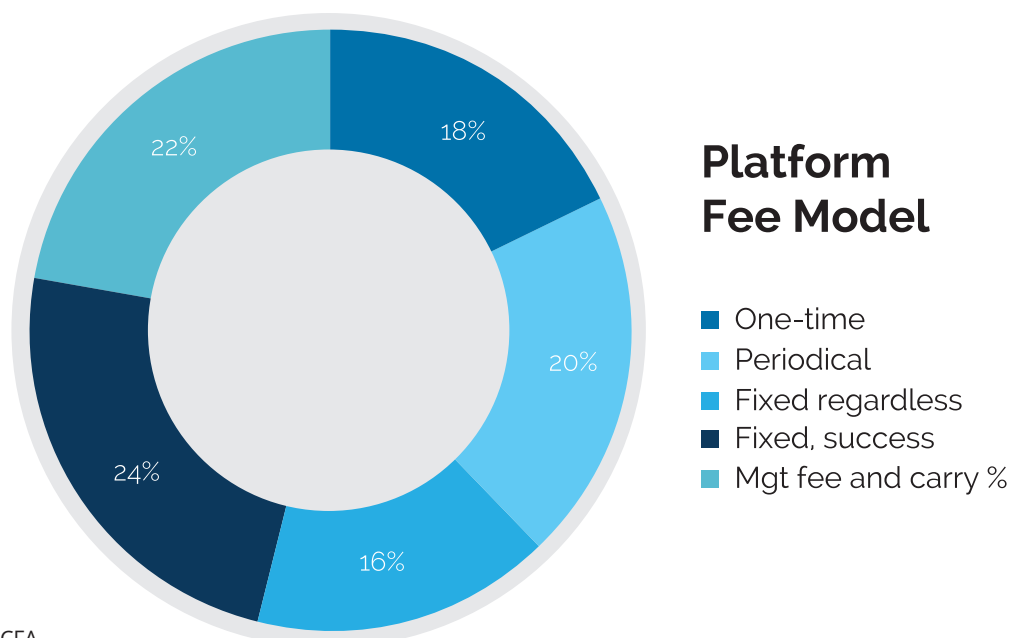
One time platform listing fee: portals are guaranteed the fee regardless of the success or failure of the campaigns.

Periodical subscription at different levels / tiers: platforms offer a variety of subscriptions for a fee, which allows issuers to run a pre-determined number of campaigns over a fixed period of time.

Fixed percentage of total amount raised, whether funding is successful or not. The percentage varies, but tends to range from 2% to 5%. "Success" usually means that the campaign reaches its pre-determined amount within a specific time frame.

Success fee: Fixed percentage of total amount raised, only if funding is successful.

Management fee and carry percentage: platforms in collaboration with 'lead investors' source and vet deals in which they also take investment positions to have 'skin in the game'. They distribute and offer participation to a wider pool of investors and then take a percentage of the value they create over time.



Source: NCFA

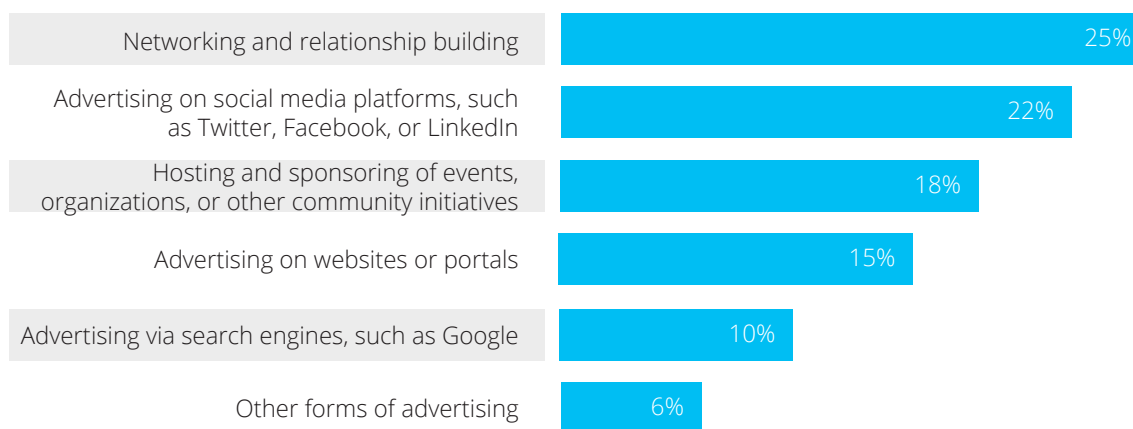


7.6 Platform Advertising

The NCFA survey defines six form of advertising: networking, social media, sponsoring, website, search engine and others. Portals tend to use more than one type of advertising to promote their platforms. The most popular types of advertising

are networking and social media. This is probably the reflection of the strong donation/rewarding crowdfunding segment, which tends to rely on social media and networking to spread the message.

Popular Forms of Advertising for Platforms



Based on % of survey responders (Source: NCFA 2015)

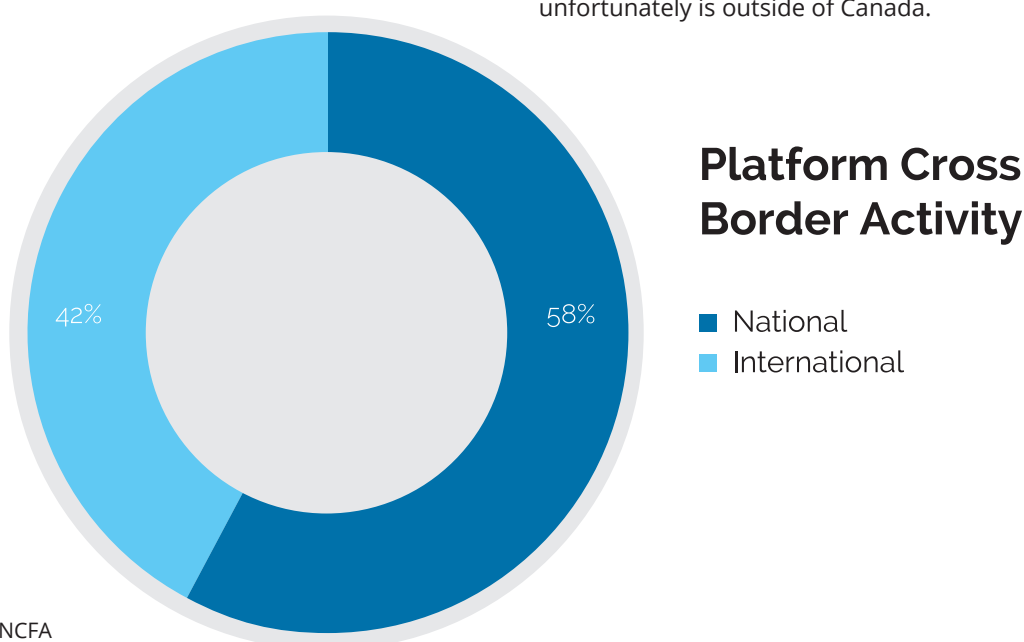




7.7 Platform Cross-Border Activity

Analysis: More than half of Canadian platform responders indicated that they engage with some level of cross-border activity. Non-regulated donation and reward-based platforms can quite easily support international projects and receive funds globally leveraging the internet and online payment providers to facilitate the flow and distribution of funds. The internationalization of regulated platforms is a challenging process and poses an extra layer of complexity for all parties. First, there are language and cultural differences. Second, investors/funders may be unfamiliar with the social and economic background of portals and company owners. Third, both platforms and issuers/investors all need to comply in their residential jurisdictions on both sides. There are cases of concurrent cross-border offerings in both Canada and the U.S. (e.g. Wafu).

Capital and Issuer 'Flight Risk': Furthermore, it is important to note the potential flight risk of Canadian issuers who simply conduct their funding requirements in the U.S. (e.g. work with a New York or San Francisco platform) or the United Kingdom. Equity Net shows data on their website that indicates at least \$250-300 million has been raised for Canadian issuers in the U.S., so it's a trend that is expected to continue given the 10 – 1 ratio of market size (prospective funding dollars available) and comparatively competitive regulatory environment. In other words, what is happening to the Canadian equity and lending based crowdfunding is beginning to resemble what has been happening regarding venture capital in Canada. Big deals are being funded by international firms, mainly the U.S., while the Canadian venture capital industry is providing smaller amounts. What we are witnessing is the flight of business to where the funding is, which unfortunately is outside of Canada.



Source: NCFA

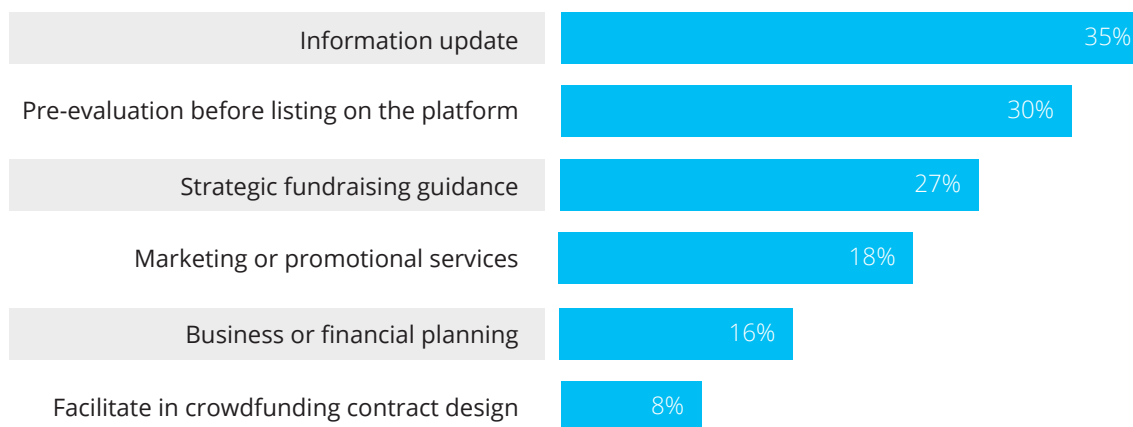


7.8 Platform Services

Analysis: Portals surveyed offer a wide range of services per platform including: pre-evaluation, strategic, planning, contract, marketing and other. The most frequently used services are information update, pre-evaluation and strategic guidance. These findings reflect what has been found as campaign success factors in many research reports. Successful campaigns tend to keep active lines of communication open, value their projects correctly (pre-evaluation), organize and present their concept well (strategic guidance) and market

their campaigns appropriately (marketing). All models that fund early stage companies also point to the competency of not just the business plan or idea, but the implementation leadership team and executive management. Furthermore, providing the pre-evaluation service is also a way for platforms to perform due diligence. The number of platform services is expected to grow. As new funding models and platforms enter the marketplace over time, there will be greater pressure to differentiate their model, primary investor-base and services to compete.

Popular Services that Funding Platforms Offer



Source: NCFA

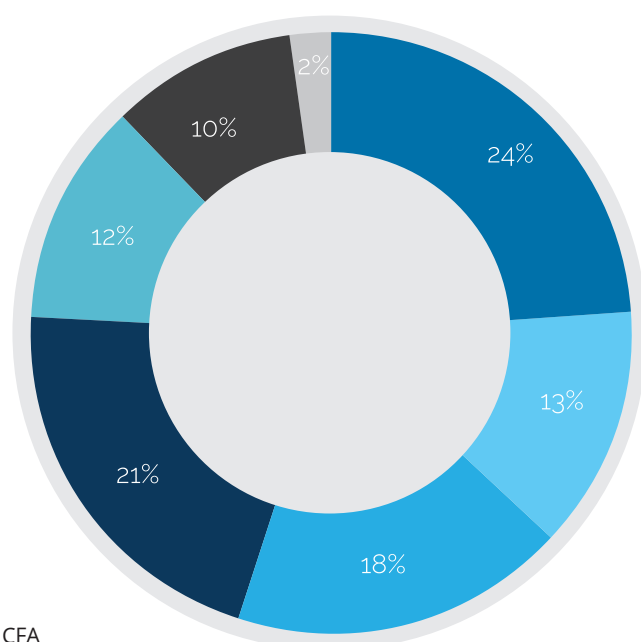


7.9 Platform Due Diligence

Analysis: Seven types of due diligence are described in the survey: background, personal, financial, cross-check, monitor, third-party and other. Platforms can, and, in fact, often, use more than one type of due diligence to ensure the authenticity of their listed project or to comply with government regulations. The most frequently used forms of due diligence

are back-ground checks and cross-checks. Given the increasing number of crowdfunding portals and more complex and larger size crowdfunding campaigns, it is likely that platforms need to go “above and beyond” standard rules and regulations to differentiate their platform listings from others in the marketplace.

Background check	Such as verification of government issued ID
Personal check	Personal meeting or site visit
Financial check	Financial or credit checks
Cross-check	From social media connections, such as Facebook or LinkedIn
Monitor	Monitor account activities
Third-party	Request third party certificates or proof (e.g. accredited investor status)
Other	Other than the above checks



Platform Due Diligence

- Background
- Personal
- Financial
- Cross-check
- Monitor
- Thirdparty
- other

Source: NCFA

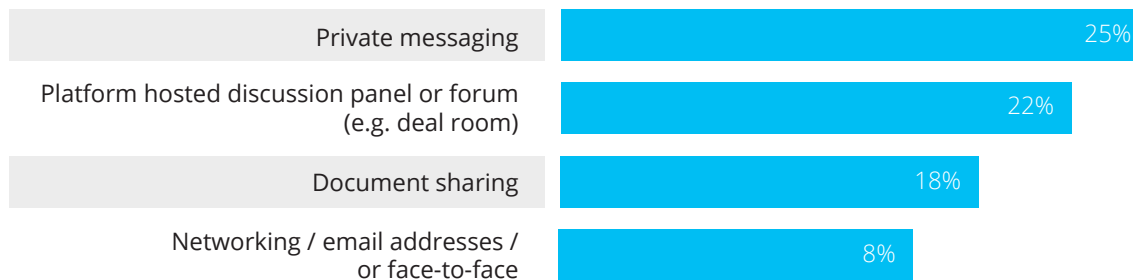


7.10 Platform Communications between Investors and Issuers

Analysis: In this survey, portals use four forms of communication to facilitate interaction between investors and issuers: discussion, private messaging, documents, and networking. Again, platforms tend to use more than one form of communication. It appears that direct and frequent interactions (i.e. private messaging) between the issuers and capital suppliers can play an important role in the success of a crowdfunding campaign. The data reveals that crowdfunding is still an infant industry in Canada and that there is still a lot of room for platforms to improve their types and frequency of

communication. Beyond general frequently asked questions (FAQs), document sharing services and private Q&A sessions including online webinars, the industry is moving towards information sharing that is inclusive, transparent and timely with information almost immediately being priced into buying decisions. Information shared on public forms and rating services, while not meant to be used for material information at this point in market development, can have either a positive or negative impact on perceived value.

Communication



Source: NCFA

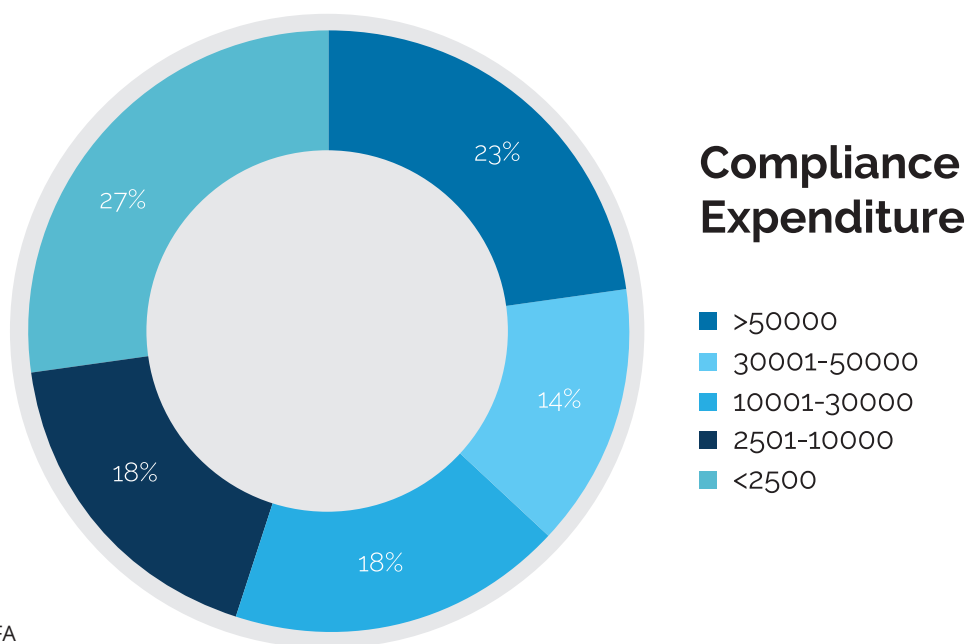




7.11 Platform Compliance Expenditures

Analysis: Annual platform compliance expenditures are categorized into five brackets: less than \$2,500, between \$2,500 and \$10,000, between \$10,000 and \$30,000, between \$30,000 and \$50,000 and more than \$50,000. It should be noted that the compliance expenditure does not include employee wages, such as salary paid to the Chief Compliance Officer (CCO). This expenditure usually covers costs such as status update, legal and government fees, etc. In addition, compliance expenditure tends to correlate with

the platform business model as different types of platforms are subject to different sets of regulations. As a rule, regulated platforms such as equity crowdfunding models will have higher compliance expenditures than non-regulated models. More than half of the surveyed platforms indicate they spend more than \$10,000 per year on compliance. This can be a substantial expense for firms that are usually smaller and/or are Start-ups themselves.



Source: NCFA



7.12 Percentage of Funds Raised by Sector

Analysis: In this survey, campaigns are grouped into 11 sectors. The “Non-profit and Charities” sector accounts for the largest amount of funds raised. Analysis of campaign data on two of the largest crowdfunding platforms confirms this finding. It also reflects very similar distribution of funds raised per sector found in this report. The wide variety of industry sectors using crowdfunding platforms indicates that crowdfunding can act as

an alternative financing venue for many kinds of projects, companies and organizations. As regulated crowdfunding markets gain more traction and awareness in Canada, it is expected that equity and debt-based crowdfinance platform transactional volumes will exceed non-regulated markets, as long as regulators allow efficient capital formation to be formed in line with international jurisdictions.

	2013	2014	2015	TREND
Non-profits and Charities	27%	24%	26%	
Business and Professional Services	16%	16%	16%	
Arts, Music, Fashion and Design	14%	15%	11%	
Education and Research	9%	11%	11%	
Life Sciences	10%	11%	10%	
Clean tech and Energy	5%	5%	7%	
Manufacturing	4%	3%	4%	
Media and Entertainment	3%	4%	4%	
Social Enterprise	5%	5%	4%	
Technology and Innovation	5%	4%	4%	
Real Estate	2%	2%	3%	

Source: NCFA

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7.13 Number of Issuers across Platforms

Analysis: The number of issuers (a company issuing a security) are divided into six groups: from less than 50 issuers per platform, to more than 500 issuers per platform. From 2013 to 2015, there was a drastic reduction in the number of platforms having less than 150 issuers, and a big increase in the number of platforms with more than 300 issuers. The projected 2016 data shows a significant jump in the number

of platforms with more than 500 issuers. The increasing percentage of platforms handling a larger number of issuers is an indicator of the emergence of larger-sized platforms. This is one of the indicators of a maturing industry where a few companies, eventually develop the expertise, experience, and reputation to attract a larger share of the business and dominate the market.

NUMBER OF ISSUERS ACROSS PLATFORMS						
YEAR	< 50	50-100	101-150	151-300	301-500	>500
2013	10%	25%	33%	20%	8%	4%
2014	4%	20%	41%	20%	10%	6%
2015	2%	16%	29%	27%	18%	8%
2016 (estimated)	0%	6%	18%	24%	37%	16%

NB: Dark blue is the highest value for each year

Source: NCFA





7.14 Number of Investors by Platform

Analysis: The number of investors per platform per year is divided into nine groups: from less than 500 investors per platform, to more than 50,000 investors per platform. Similar to the finding on the number of issuers across platforms, there appears to be a noticeable trend towards concentration. Over time, there is a reduction in the percentage of platforms having less than 1,500 investors per year, and an increase in the percentage of platforms having more than 2,500 investors per year. This is likely an indicator of the growth and maturity of the crowdfunding industry.

Community Capital Liquidity and Resilience:

One of the challenges of operating sustainable online marketplaces is having a sufficient number of investors willing to participate in posted deal flow. In Canada, as in other countries, there is a limited number of investors willing to deploy risk capital to fund early stage ventures that qualify

at accredited levels. One of the underlying goals of democratizing the exempt market is to allow wider participation through new financing tools and exemptions that enable the general public (or non-accredited investors) to participate in a limited number of crowdfunding deals which are inherently different than public market investments or other retail product options (e.g. mutual funds). Educating retail investors on the risks and potential benefits of participating in this new class of retail investment products is both an opportunity and a challenge. Many industry experts believe that “community capital” is also much more resilient than other forms of capital supply during market fluctuations such as a credit crunch. As crowdfunding education continues to reach deeper levels of standardization, and investors of all types gain confidence in online market opportunities and mechanisms, more investors may be drawn to these markets.

NUMBER OF INVESTORS BY PLATFORM									
YEAR	< 500	501-1000	1001-1500	1501-2500	2501-5000	5001-10000	10001-20000	20001-50000	> 50000
2013	4%	18%	31%	20%	10%	8%	6%	4%	0%
2014	2%	22%	29%	18%	12%	6%	8%	4%	0%
2015	2%	16%	33%	12%	14%	10%	8%	6%	0%
Est. 2016	0%	12%	16%	18%	22%	12%	10%	8%	4%

NB: Dark blue is the highest value for each year

1. The majority of platforms have between 500 and 5000 investors

Source: NCFA





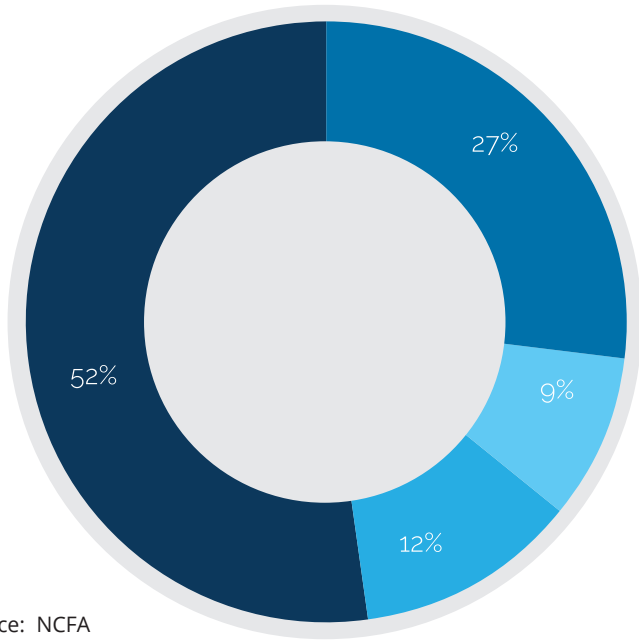
7.15 Investor Profile Across Platforms

Analysis: Four categories of investors are considered in this survey: accredited individuals, accredited institutional, eligible and retail investors. The survey reveals that 52% of investors are retail investors. While the contribution of each investor may be relatively small, this large percentage of

investors indicate a wide and growing public interest in participating in the crowdfunding industry. This finding also leads to the conclusion that there is a real need to educate the public and develop clear guidelines and regulations to protect issuers as well as investors.

Accredited Individual investors (i.e. angels)	<p>Accredited Investors are defined differently in Ontario and in other provinces. Verification with the individual provincial legal definition is recommended for interested parties. However, some of the ways in which one is considered an accredited individual investor are:</p> <ul style="list-style-type: none"> • “an individual who, either alone or with a spouse, beneficially owns financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds \$1,000,000; • an individual whose net income before taxes exceeded \$200,000 in each of the two most recent calendar years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of the two most recent calendar years and who, in either case, reasonably expects to exceed that net income level in the current calendar year; • an individual who, either alone or with a spouse, has net assets of at least \$5,000,000⁴²
Accredited Institutional investors (i.e. VC, credit union, bank)	<ul style="list-style-type: none"> • “a trust company or trust corporation registered or authorized to carry on business under the Trust and Loan Companies Act (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, acting on behalf of a fully managed account managed by the trust company or trust corporation, as the case may be; • an investment fund that distributes or has distributed its securities only to (i) a person that is or was an accredited investor at the time of the distribution, (ii) a person that acquires or acquired securities in the circumstances referred to in sections 2.10 of NI 45 106 [Minimum amount investment] or 2.19 of NI 45 106 [Additional investment in investment funds], or (iii) a person described in paragraph (i) or (ii) that acquires or acquired securities under section 2.18 of NI 45 106 [Investment fund reinvestment]
Eligible investors (as per provincial regulations)	Generally, a person who has sufficient knowledge and experience in dealing with financial products, which enables him/her to successfully assess the benefits and risks of a transaction
Retail Investors / contributors	The general public

⁴² <http://www.osc.gov.on.ca/en/21943.htm>



Investor Profile

- accredited individuals
- accredited institutional
- eligible
- retail investors

Source: NCFA

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7.16 Total Funding Volume Across Platforms

Analysis: The findings on the total amount of money raised across platforms further substantiate the observation that crowdfunding industry is maturing. An increasingly smaller percentage of platforms raise less than \$1.5 million per year, and an increasing

larger percentage of platforms raise more than \$1.5 million per year. The data shows a growing size of the overall market as well as the emergence of platforms handling larger funds.

FUNDING VOLUME (\$ CA) ACROSS PLATFORMS								
YEAR	< \$300K	\$300K-\$500K	\$500K-\$1M	\$1M-\$1.5M	\$1.5M-\$3M	\$3M-\$5M	\$5M-\$10M	> \$10 M
2013	4%	12%	29%	20%	18%	12%	4%	2%
2014	2%	8%	20%	25%	24%	14%	6%	2%
2015	0%	4%	22%	18%	31%	16%	6%	4%
Est. 2016	0%	0%	8%	16%	22%	35%	12%	8%

NB: Dark blue is the highest value for each year

1. The majority of funding being aggregated by portals is between \$500K – \$5M
2. There is a trend towards higher dollar volumes predicted in 2016

Source: NCFA

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8.0 Transactional Framework for Success



Transactional Framework



Successful Financings by Company Growth Stage



Success Factors



Duration of Capital Raise



Percentage of Repeat Successful Issuers



Percentage of Successful Female Fundraisers



8.1 Transactional Framework

While regulated and non-regulated crowdfunding campaigns differ in many ways, such as the degree of compliance and types of documents required to effectively convey that a business proposal is a good opportunity or to qualify for a low cost loan, they are also similar in many ways. For example, marketing and distribution and leveraging back office infrastructure to facilitate payment technology and streamline administrative tasks are services that both require.

Debt-based crowdfunding (Loans): For individuals and businesses applying for an online loan the process is quick and relatively painless compared to filling out manual forms at most financial institutions. Most online lenders will require borrowers to undergo an online ID verification and instant credit check to determine a suitable rate, amount and lending options, and then if all parties are in agreement, use digital loan documents that may cover reps and warrants to finalize loan details. There are a growing number of online lending providers within Canada offering a full spectrum of

lending products such as unsecured loans, secured loans and invoice factoring options.

For Equity and Rewards (pre-sale): A basic transactional framework can be broken into three primary phases including (1) planning and strategy or pre-campaign activities, (2) execution and management; and (3) post-campaign follow-up. Individual campaigns should tailor the framework to reflect their business objectives and characteristics. The time needed for each step will also vary depending on specific situations such as market conditions, funding goals and overall complexity of the offering. It should be noted that crowdfunding is not a panacea to all funding requirements. Campaigns that are simple, easy to explain, share and excite others about may be good candidates for online funding markets. On the other hand, overly complex products/services and an unknown management team with little or no 'friends or family' networks may require more work to prepare, and, in some cases, are not suitable for the effort involved with launching a campaign.



Source: NCFA

8.1.1 Planning and Strategy

Preparation is key: Before launching any financing campaign it is critical that participants fully prepare for the process. This includes developing all the marketing materials such as a pitch deck, video and company profile. The greater the planning and strategy effort that is undertaken in advance of launching an online financing round, the greater the likelihood of achieving a successful funding outcome. This involves researching the markets, prospective crowdfunding platforms, funding models and options, competitive landscape, costs and preparing as much content, knowledge and automating as many tasks in advance as possible.

Avoid prematurely launching: Many entrepreneurs mistakenly underestimate the time required to properly plan for launching a campaign, which as a rule of thumb may take on average approximately 3 months to ‘get ducks in a row’ and prime the market pump for an imminent launch. Pressing the ‘go’ button prematurely may adversely affect reputational risk if the campaign “falls flat” and reflect poorly on the management team’s ability to deliver and there may also be intellectual property risk if exposed too early without the proper resources to execute and follow-up. Building a suitable funding team that can handle a wide variety related tasks is often key to ‘managing success’ or failure and may include a funding lead, a content and media manager, a compelling spokesperson and qualified resources for compliance and accounting.

Campaign Budgeting and Taxes: Developing a suitable budget for either regulated or non-regulated funding campaigns is a must. For many entrepreneurs there can be budgeting and

resourcing issues that crop up that may prevent them from maximizing the funding that is received due to unforeseen expense around production, and fulfillment costs such as shipping, returns handling, currency exchange and tax treatments.

Financing Documents: For regulated campaigns in particular, it is important to provide compliant supporting materials such as financial models including projections and funding requirements; to identify key milestones that you intend to achieve with the funding, use of the proceeds; and to provide a due diligence data-room (online) that contains: historical financials, financial model, cap table, previous financing documentation, corporate records, materials contracts, employment agreements, patent/IP filings, technical white-papers, business plan etc. As part of their due diligence some of the investors and the crowdfunding site managers will want to speak with major customers, suppliers, partners, key employees and other stakeholders.

Investor and Influencer Outreach: During the planning and strategy phase, performing required outreach to verify feedback on the potential for raising funds and securing as many “early investors” including ‘lead investors’ will help significantly when launching the campaign. Investors trust other investors especially those experienced in investing in similar companies. Early investors can provide validation or social proof and are key in attracting other like-minded investors in a wider network. Having credible or known investors as part of your team will significantly improve your chances of a successful crowdfunding campaign. All key stakeholders in your network should be engaged to help identify and pursue prospective investors both ‘offline and online’ to prepare the network for an imminent launch.

Due Diligence: For regulated campaigns, the crowdfunding platform (as a gatekeeper) and many investors will conduct due diligence on the company, founders and management team before making any investments or agreeing to help with the financing. At a high level, this will include viewing the prepared materials, holding in-person meetings with the management team and key employees and speaking with external stakeholders. The key to a successful outcome of the due diligence process is preparation: make sure all of the materials are up to date and easily accessible, all assumptions are well-supported and that investors have timely access to external parties such as customers, partners, etc. The crowdfunding site should also engage an outside legal firm to assist with the due diligence to ensure all of the documentation is accurate and in line with regulatory compliance. For donation and reward-based campaigns, due diligence is usually kept to a minimum although some platforms can

have reasonably strict guidelines in terms of the types of projects they allow listed on their platform. Accordingly, if you are backing a project on a non-regulated crowdfunding platform, be aware that content, business projections and the acumen of the management team all need to be taken with a 'grain of salt' and verified using online verification tools and basic checks to determine the level of credibility.

8.1.2 Campaign Execution

Campaign Setup: The next step is to formally launch the campaign on a crowd funding site. The initial task is to setup the campaign on the funding site by creating a company and deal profile including deal terms and uploading the required marketing materials and compelling video. Each crowdfunding site will have its own requirements, tools and template.



Source: NCFA

Launch and Distribution: Once this is done, the deal will go “live” on the site with investors accessing backup materials, initiating a dialogue with management and some investors expressing an interest to commit to a level of investment in the offering. In many regulated campaigns and as part of marketing services, crowdfunding platforms may hold investor-orientated webinars and in person “meet the management team” events to allow a Q&A session to transpire. Online forums, frequently asked questions (FAQs) and other means of communication are relied on to facilitate a decision of whether or not to invest. Campaign owners should be leveraging their online and offline network and telling everyone that their deal is live and asking them to share with suitable and aligned investors or backers accordingly. For non-regulated campaigns, social media and digital marketing techniques, along with public relations and media strategies can be used to help increase awareness of the offering.

Close the deal: The crowdfunding site will qualify all interested investors to ensure that they are eligible to invest in the deal and ensure the completion of all documentation required by regulatory authorities. The deal specific materials such as subscription agreement will have to be completed by the investors (typically available as a download from the site) and verified by the platform according to their license. The investor funds are usually deposited with a legal firm or held in trust (or other arrangements) until the closing of the deal. Before the deal is closed, the company prepares the paperwork for the securities to be issued such as share certificates. Any issues or missing information that was identified during the due diligence process must be resolved/supplied before closing. In most cases, the legal firm hired by the crowdfunding platform will have a call with

the management team and go through a list of questions to discuss some of the outstanding issues and, in some cases, obtain verbal representations/warranties where applicable. At the closing, the funds are released at the same time the share certificates/securities documents are turned over to the crowdfunding site to be forwarded to investors. For non-regulated campaigns, funds are typically held for a short period by the funding portal and/or payment processing company until they clear, and then they are deposited in the campaign owner's account on record or as identified.



8.1.3 Post-Campaign

After a campaign has been completed, companies must fulfill any outstanding legal or customer obligations that they have promised during the funding campaign. Communicating in an authentic and timely fashion with investors (some new and some old) is crucial especially when dealing with backers/investors who have committed financial dollars who will have a heightened sensitivity and

interest to stay plugged in. Customer expectations need to be managed and a communications platform other than the crowdfunding platform must be utilized with investors migrating from the portal to the company's mailing list and website. Companies now have obligations to their shareholders and must comply with any on-going disclosure requirements such as a material change in the nature of an operating business.



Source: NCFA

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8.2 Successful Financings by Company Growth Stage

Analysis: The four types or stages of successfully funded project financing are: start-up (pre-revenue), seed (pre-revenue), series A (growth, post-revenue), series B or greater. The Canadian crowdfunding industry has been able to provide an alternative

financing means to companies at difference phases. This indicates that investors are willing to consider projects with a variety of risk levels, and crowdfunding is a legitimate alternative financing method.

Start-up (pre-revenue)	Capital raised in the Start-up stage of a firm
Seed (pre or post-revenue)	The funding necessary to launch the product
Series A (post-revenue or growth)	The funding necessary to obtain product traction
Series B or greater (growth)	The funding necessary to scale the product

Company Stage	2013	2014	2015	2016	TREND
Start-up (pre-revenue) <i>Capital raised in the Start-up stage of a firm</i>	40%	33%	28%	22%	
Seed (pre or post-revenue) <i>The funding necessary to launch the product</i>	0%	29%	30%	26%	
Series A (post-revenue or growth) <i>The funding necessary to obtain product traction</i>	20%	20%	20%	24%	
Series B or greater (growth) <i>The funding necessary to scale the product</i>	40%	18%	22%	28%	

Source: NCFA



8.3 Success Factors

Analysis: Seven success factors are included in the survey: project pitch, project financials, management team, business plan, size of online networks, realistic goals, marketing and design. Platforms were asked to rate these factors from 1 to 3 with 1 being the most important and 3 being the least important. The results are re-scaled to base 10 to highlight the relative importance. “Project pitch” and the “Size of

online networks” are considered the most important factors. Data analysis on the successful campaigns on two of the largest platforms unveil quite similar findings. In this analysis, “the number of comments”, which is arguably affected by the “size of the online networks” and the “frequent updates”, which can be considered a part of “project pitch”, appear to be correlated with campaign success.

Factors Lead to Successful Campaign



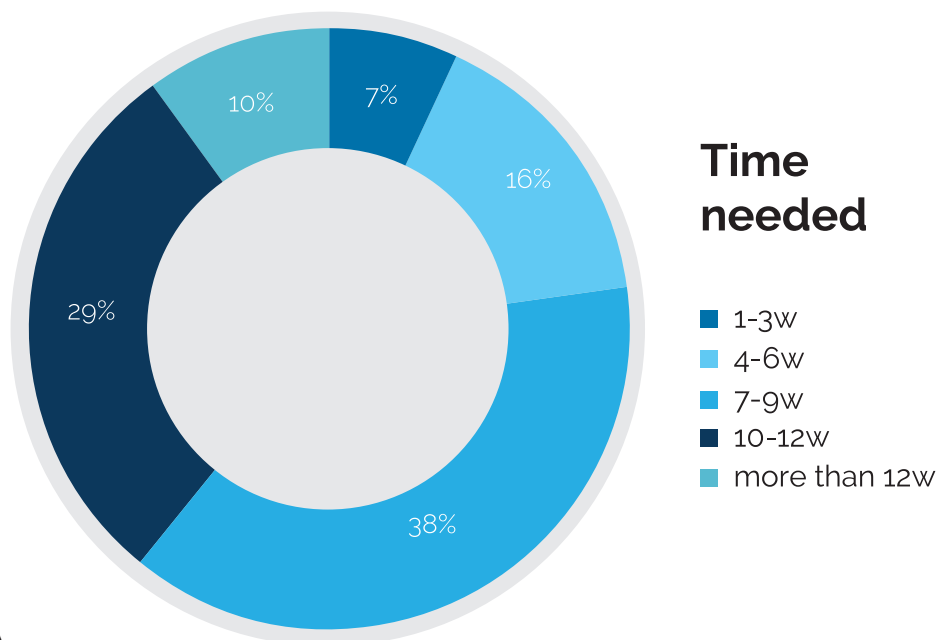
Source: NCFA



8.4 Duration of Capital Raise until Goal

Analysis: This question focuses on those projects that reached the pre-set goals. The majority (38%) of successful projects took 7-9 weeks. Analysis of the successful projects on two of largest platforms also confirms that the highest number of successful

projects take 7-9 weeks to reach their goals. This finding does not imply all issuers should select the exact same duration, but it does suggest that companies should consider the pre-set duration as part of their realistic timeline goal.



Source: NCFA



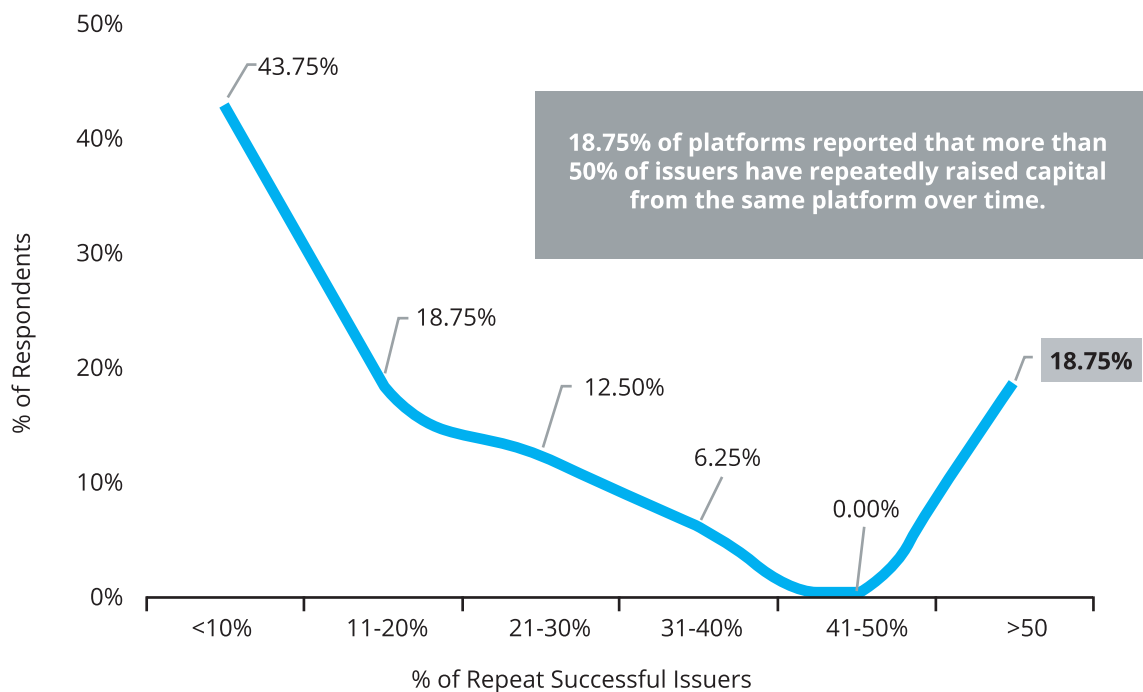


8.5 Percentage of Repeat Successful Issuers

Analysis: Six percentage brackets are used in the survey: less than 10%, 11-20%, 21-30%, 31-40%, 41-50% and more than 50%. Almost half of the platforms indicate that only 10% of their issuers have repeatedly raised capital from the same platform.

- 43.75% of platforms reported that less than 10% of issuers have repeatedly raised capital from the same platform
- 18.75% of platforms reported that 11-20% of issuers have repeatedly raised capital from the same platform
- 12.50% of platforms reported that 21-30 % of issuers have repeatedly raised capital from the same platform
- 6.25% of platforms reported that 31-40% of issuers have repeatedly raised capital from the same platform
- 0.00% of platforms reported that 41-50% of issuers have repeatedly raised capital from the same platform
- 18.75% of platforms reported more than 50% of issuers have repeatedly raised capital from the same platform

Percentage of Repeat Successful Issuers



Source: NCFA

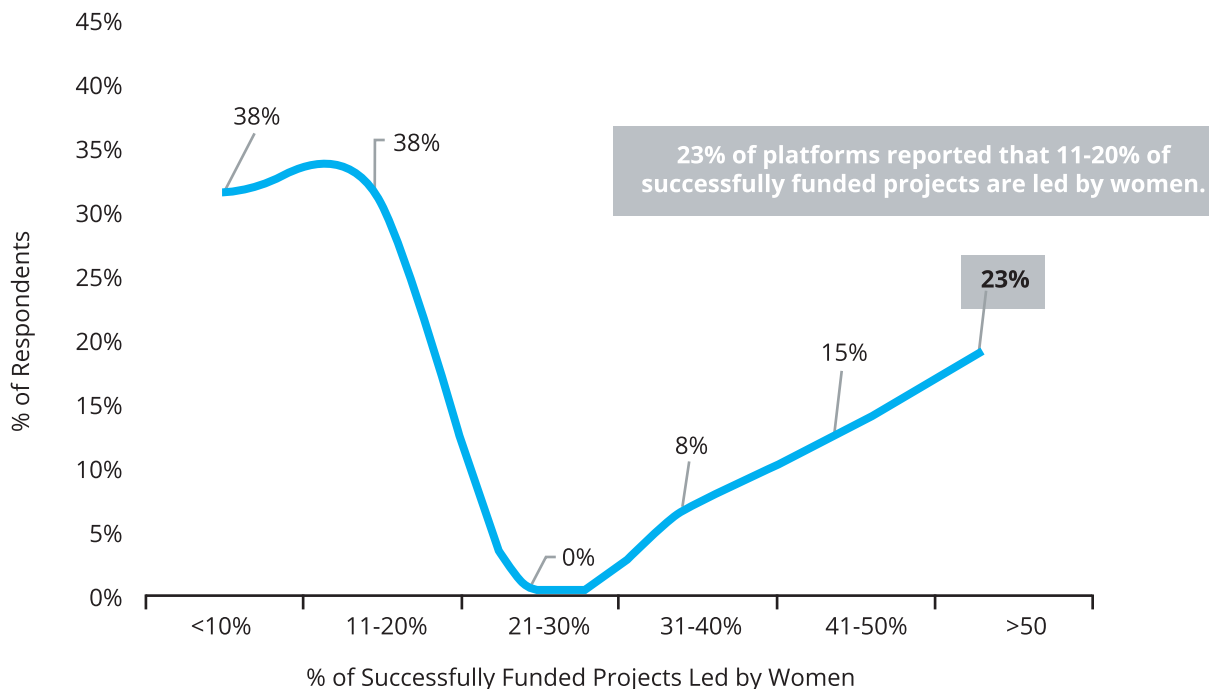


8.6 Percentage of Successful Female Fundraisers

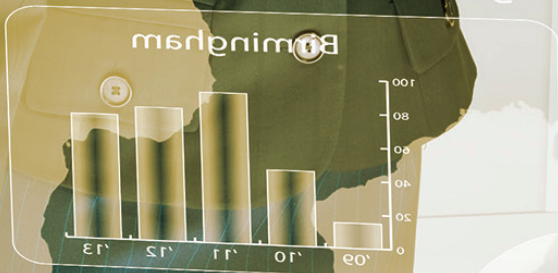
Analysis: Six percentage brackets are used in the survey: less than 10%, 11-20%, 21-30%, 31-40%, 41-50%, and more than 50%. The majority of the platforms indicate that less than 20% of successfully funded projects are led by women. Yet it is interesting to note that 23% of platforms report that more than 50% of successful funded projects are led by women. It is possible that the reason for these seemingly anomalous findings is in the type, size, and industry of projects, which reflect the general participation of women in specific industries, as opposed to whether or not crowdfunding is an equal funding raising method for men and women.

- 38% reported that less than 10% of successfully funded projects are led by women
- 38% reported that 11-20% of successfully funded projects are led by women
- 0% reported that 21-30% of successfully funded projects are led by women
- 8% reported that 31-40% of successfully funded projects are led by women
- 15% reported that 41-50% of successfully funded projects are led by women
- 23% reported more than 50% of successfully funded projects are led by women

Percentage of Successful Female Fundraisers



Source: NCFA



9.0 Critical Risks to Market Formation and Growth



In order for the alternative finance crowdfunding industry to be 'firing on all cylinders', the government must collaborate with industry to address critical risks that will certainly limit the formation and growth of the nascent industry:



Fragmented Crowdfunding Regulations



Burden, Sustainability and Level Playing Field



Education and Awareness



Transparency and Standards



9.1 Fragmented Crowdfunding Regulations

Regulatory Patch Work is Causing Confusion and is Not Efficient: In the past 2 years, multiple provincial securities regulators have introduced a ‘patch work’ of crowdfunding regulations that vary with respect to (1) offering documentation and ongoing disclosure requirements; (2) capital raising and investment limits; and (3) advertising. These differences make it more difficult and costly for early stage companies to reap the benefits that debt and equity crowdfunding delivers as an online funding model that works to streamline the pooling of capital and deployment of investments across jurisdictions. Canada cannot afford to miss out on the opportunity that investment crowdfunding offers as an alternative and additional way of capital formation for start-ups and scale-ups alike especially given that venture financing markets and transactional volumes are relatively small compared with other countries such as the United States.

Federal Perspective and Need to Implement Uniform and Competitive Regulations: Uniform and internationally competitive crowdfunding regulations across Canada is of pivotal importance and should be made a priority. All levels of government should actively advocate and support provincial governments and their securities regulators to address the issue of anti-competitive and fragmented crowdfunding rules to improve market confidence and sustainability. We strongly encourage and support the Capital Markets Authority Implementation Organization (CMAIO), the latest initiative to have a national securities regulator in Canada and create uniform crowdfunding regulations. This will help reduce duplicate and unnecessary administrative burdens, and improve data collection and informational sharing in the exempt capital markets. There is a huge need to right size the appropriate level of compliance and investor protections for the stage of participants.

“Canada, at 1/10th the population of the U.S. and about the same size as the U.K., is missing potentially billions of dollars flowing into SMEs to scale up their businesses and improve their financial future. Waiting until all the risk has been eliminated from these alternative finance models will see foreign operators dominating the Canadian landscape in the future. Not just as funding platforms and marketplace lenders but in all sectors of our economy.
– Alixe Cormick, President, Venture Law Corporation”



9.2 Burden, Sustainability and Level Playing Field

Zero usage of the Integrated Crowdfunding

Exemption Multi-lateral 45-108: While equity and debt-based crowdfinance regulations in Canada have only been active since January 2016, it's worth noting that there has been zero reported usage of the newly adopted multi-lateral crowdfunding exemption 45-108 (referred to as the 'Integrated Crowdfunding Exemption'). The equity crowdfunding volumes published in this report are by funding portals and Exempt Market Dealer (EMD) licenses relying on other exemptions such as the Start-up Business or Accredited Investor Exemption in participating provinces.

Are Regulations Stifling Capital Formation and Canada's Competitiveness?

Industry experts believe that the low to no usage of recently adopted 45-108 Integrated Crowdfunding Exemption is due to the (1) general high cost of compliance burden placed on both portal operators and issuers relying on the exemption to raise small 'bite sized' chunks of capital through online models; and (2) restrictions around advertising and solicitation that severely deflate the ability to use social media to increase awareness for an offering which is fundamental to the success of a social sharing funding model among retail investors.

There is also evidence that the Integrated Crowdfunding exemption is not competitive relative to the United States where there is serious attention and focus to making Title III Regulation

Crowdfunding (equivalent to Canada's Integrated Crowdfunding Exemption) provide a level playing field among retail investor participation. There are other examples of regulatory variances between the United States and Canada's version(s) of retail-focused crowdfunding exemptions around ongoing disclosure costs (without 'sunset clause' and the inability to advertise.

From a sustainability perspective, if funding portals and licensed EMDs are unable to generate sufficient margins to operate or facilitate usage of the Integrated Crowdfunding Exemption then regulations are at risk of stifling market formation to the point of creating a non-competitive environment as capital is inefficiently formed. There is already a significant burden weighing on the industry with portal operators trying to navigate fragmented rules while also educating issuers and investors of new financing options at the same time.

Level Playing Field: Given that Canada lacks a national securities regulator and has fragmented crowdfunding rules, a costly compliance burden, and relatively small venture funding markets in Canada compared to international jurisdictions, the industry has voiced concerns about the Ontario Securities Commission providing international brands special exemptive relief from registration requirements while requiring Canadian entrepreneurs interested in operating an investment crowdfunding platform to acquire an EMD license.

“The mission of securities regulators in Canada is to maintain healthy capital markets that support capital formation and investor protection in Canada. I presume this also includes maintaining a level playing field for all market participants. It concerns me to see that the Ontario Securities Commission recently granted a one-off approval

to a U.S. based online platform, that relieves it from registration as a securities dealer in Canada. It puts that platform at an arbitrary competitive advantage over other online platforms that did go through the entire process of obtaining registration as securities dealer.”





9.3 Education and Awareness

Educational Gap: One of the greatest hurdles to the growth of the Canadian crowdfunding industry is education and awareness. Entrepreneurs and investors of all types need to better understand the process, risks-rewards and cost-benefits of conducting online financings in alternative finance crowdfunding markets. They need data, case studies and a framework to provide guidance along with a mentoring and peer network that allows them to accelerate years of education into a comprehensive program that covers A-Z and prepares them to launch a live and compliant funding round.

NCFA FastTrack Accelerator Program: To help bolster education, improve productivity and potential funding volumes, NCFA together with partners and affiliates will be launching Canada's

first FastTrack accelerator program in 2017. There will be a focus to standardize and streamline the process, leverage data points to normalize pricing, and track the growth and preparedness of both start-ups and scale-ups as they prepare for the process of raising rewards or investment capital from investors. The program also intends to develop a transparent service provider network to help connect vendors to the markets in the right ways while considering affordability and alignment. The industry is looking to partner with key stakeholders such as industry affiliates, international hubs and domestic government, academic, media outlets and investment partnerships for support to help raise the profile and unlock key resources fill the educational divide that currently exists in the market alongside an appropriate level of investment.





9.4 Transparency and Standards

Standards to Increase Market Confidence: The world has been online for years and now finance is working at a torrent pace to catch up. As financial transactions move online and trends towards opening up participation in exempt markets to more investors around the globe increases, there will be an increasing need for more transparency and standards in alternative finance and exempt capital markets around the globe. While new technologies such as blockchain work to enhance security and improve historical record keeping, the industry in collaboration with government and relevant participatory stakeholders should work towards establishing a transparent framework and set of standards to improve transactional efficiencies and build confidence in the markets.

Importance of Data Sharing: Funding portals globally are shedding much light into exempt private capital markets, which is an area that is not known for being particularly transparent or efficient. This is being accomplished by providing greater transparency and pricing efficiency around financing transactions. Regulators across Canada are encouraged to allow and consider mandating funding portals and licensed securities dealers to share aggregated data and insights on top line funding volumes, sector performance and other key metrics to allow investors and issuers to transparently engage market activity, thus helping to form accurate data points and market confidence.



10.0 Wake-up Call: To Compete or **Not Compete?**



We trust that the research and insight accumulated for NCFA's inaugural 2016 Alternative Finance Crowdfunding in Canada report will serve as a wake-up call to all crowdfunding stakeholders including companies, investors, platforms, industry members, affiliates and partners, academia, regulators and other government bodies.

In Summary

It's irrefutable that private capital markets along with private investment are moving online and opening up the potential for global markets and financial transactions to occur in ways not possible

before. Alternative finance crowdfunding markets can fill early stage funding gaps and strengthen the quality and quantity of both capital supply and the entrepreneurial and innovation ecosystem. However, the findings in the report are clear. While alternative finance crowdfunding markets are quickly becoming a genuine source for early stage capital and are growing in Canada, they are not achieving their full potential and growing at a much slower rate than Canada's international comparators in the United States and United Kingdom. Competing jurisdictions are moving forward and further ahead of Canada. Activity is being pulled south of the 49th parallel in a tale that is all too familiar to Canadians.

ⁱ 45-316 Start-up Crowdfunding Registration and Prospectus Exemptions [Multilateral CSA Notice] has been adopted in each participating province under either a separate rule.
ⁱⁱ Multi-lateral Instrument 45-108 - Crowdfunding.
ⁱⁱⁱ ASC Rule 45-517 - Prospectus Exemption for Start-Up Businesses.



In its current state, crowdfunding regulations are unnecessarily onerous, duplicative, complex and costly. Action needs to be taken now to address the risks of any non-competitive market stifling regulations and a much more active approach should be taken by all stakeholders to increase the awareness and financial literacy of the funding opportunities that exist for small to medium-sized businesses and participation

opportunities that exist for investors. On the cusp of Canada preparing to celebrate its 150th Anniversary, it's time for investors, government, financial institutions, and Canadians to come together to 'back' this industry enabling more financing options and liquidity to market, more foreign capital inflows and help Canada compete globally in the 21st century while creating jobs and economic growth.

^{iv} Exemption from certain financial statement requirements of Form 45-106F2 Offering Memorandum for Non-Qualifying Issuers has been adopted in each participating province under either a separate rule.
^v Section 2.9 Offering Memorandum Exemption in National Instrument 45-106 – Prospectus Exemptions.
^{vi} Section 2.3 Accredited Investor Exemption in National Instrument 45-106 – Prospectus Exemptions.
^{vii} A few of the laws and regulations (non-exhaustive) that may apply to a lending crowdfunding platform (marketplace lender):

(Endnotes)

- i. 45-316 Start-up Crowdfunding Registration and Prospectus Exemptions [Multilateral CSA Notice] has been adopted in each participating province under either a separate rule.
- ii. Multi-lateral Instrument 45-108 - Crowdfunding.
- iii. ASC Rule 45-517 - Prospectus Exemption for Start-Up Businesses.
- iv. Exemption from certain financial statement requirements of Form 45-106F2 Offering Memorandum for Non-Qualifying Issuers has been adopted in each participating province under either a separate rule.
- v. Section 2.9 Offering Memorandum Exemption in National Instrument 45-106 – Prospectus Exemptions.
- vi. Section 2.3 Accredited Investor Exemption in National Instrument 45-106 – Prospectus Exemptions.
- vii. <https://www.kickstarter.com/projects/revols/revols-premium-quick-custom-fit-wireless-earphones/description>
- viii. <https://www.frontfundr.com/Entrepreneur/Company/1368>
- ix. <http://www.osc.gov.on.ca/en/21943.htm>
A few of the laws and regulations (non-exhaustive) that may apply to a lending crowdfunding platform (marketplace lender):

GENERAL**National**

- Bankruptcy and Insolvency Act (as it relates to default provisions only);
- Bills of Exchange Act;
- Canadian Small Business Financing Act;
- Companies' Creditors Arrangement Act (as it relates to default provisions only);
- Criminal Code, section 347 (defines a criminal interest rate);
- Interest Act;
- Money Lenders Act;
- Multilateral CSA Notice 45-316 - Start-up Crowdfunding Registration and Prospectus Exemptions;
- National Instrument 31-103 - Registration Requirements, Exemptions and Ongoing Registrant Obligations;
- National Instrument 45-106 - Prospectus Exemptions;
- National Instrument 81-106 Investment Fund Continuous Disclosure;
- Personal Information Protection and Electronic Documents Act;
- Privacy Act;
- Proceeds of Crime (Money laundering) and Terrorist Financing Act;

^{viii} See: In The Matter of the Securities Legislation of Ontario (the "Jurisdiction") and In the Matter of Mars VX (the "Filer") http://www.osc.gov.on.ca/en/SecuritiesLaw_ord_20130620_215_mars-vx.htm

^{ix} See: In the Matter of the Securities Legislation of Ontario (the "Jurisdiction") and in the Matter of Angellist, LLC ("Angellist") and Angellist Advisors, LLC ("ALA", collectively with Angellist, the "Filers") https://www.osc.gov.on.ca/static/images/Securities/ord_20161024_angellist.pdf

PROVINCIAL**Alberta**

- Collection and Debt Repayment Practices Regulation (Alberta);
- Cost of Credit Disclosure Regulation (Alberta);
- Credit and Personal Reports Regulation (Alberta); • Electronic Transactions Act (Alberta);
- Fair Trading Act (Alberta);
- Internet Sales Contract Regulation
- Loan and Trust Corporations Act (Alberta)
- Payday Loans Regulation;
- Personal Property Security Act (Alberta);
- Securities Act (Alberta)

British Columbia

- Business Practices and Consumer Protection Act (British Columbia);
- Capital Requirements Regulation (British Columbia);
- Credit Union Incorporation Act (British Columbia); • Disclosure of the Cost of Consumer Credit Regulation (British Columbia); • Financial Institutions Act (British Columbia)
- Guarantees and Indemnities Regulation (British Columbia)
- Law and Equity Act (British Columbia)
- Payday Loans Regulation (British Columbia)
- Personal Property Security Act (British Columbia);
- Privacy Act (British Columbia);
- Related Party Transaction Act (British Columbia);
- Securities Act (British Columbia);

Ontario

- Consumer Protection Act, 2002 (Ontario);
- Consumer Reporting Act (Ontario);
- Co-operative Loans Act (Ontario);
- Cost of Borrowing and Disclosure to Borrowers Regulations (Ontario);
- Credit Unions and Caisses Populaires Act, 1994 (Ontario);
- Loan and Trust Corporations Act (Ontario)
- Mortgage Brokerages, Lenders and Administrators Act, 2006 (Ontario);
- Electronic Commerce Act (Ontario);
- Payday Loans Act (Ontario);
- Personal Property Security Act (Ontario);
- Unconscionable Transactions Relief Act (Ontario);

MARKET NICHE EXAMPLE OF ADDITIONAL LAWS**Real Estate Related (British Columbia)**

- Builders Lien Act;
- Family Law Act;
- Insurance Act
- Insurance Classes Regulation;
- Land Spouse Protection Act;
- Land Title Act; • Land Transform Act;
- Mortgage Brokers Act;
- Property Act;
- Real Estate Services Act;
- Rule 45-501 (BC): Mortgages;
- Wills Act; and
- Wills Variation Act.



Notes

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Idea Time

Get in touch

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