

Start-up Crowdfunding Guide for Businesses

Crowdfunding is a process through which an individual or a business can raise small amounts of money from a large number of people, typically through the Internet. The objective is to raise sufficient funds in order to carry out a specific project. There are different types of crowdfunding, such as by donation, pre-selling of products or securities crowdfunding. This guide discusses securities crowdfunding.

Securities crowdfunding

With securities crowdfunding, a business raises funds through the Internet by issuing securities (such as bonds or shares) to many people. This type of crowdfunding is overseen by the regulator of the province or territory where the business and potential purchasers are located.

Valérie has a brilliant idea. She has developed a soft drink flavoured with maple syrup and other local products. She has prepared a detailed business plan and hopes to turn a profit from her business venture. She thinks there is a market for maple soft drinks in gourmet grocery stores, bars and restaurants. She wants to begin production. She needs \$75,000 in order to bottle and market her soft drinks. She applied to a financial institution for a loan, but was refused. She is thinking about raising the funds she needs by issuing shares through a securities crowdfunding campaign.

Legal Obligations

In Canada, all trading of securities is subject to legal obligations. For example, a business seeking to raise capital by issuing securities must file a prospectus with the securities regulator of their province or territory or have an exemption from the prospectus requirement under securities law.

These obligations, however, can be costly for start-ups and early stage businesses. The securities regulators in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick and Nova Scotia (the **participating jurisdictions**) allow start-ups and small businesses (**issuers**) to raise funds using securities crowdfunding without filing a prospectus or preparing financial statements. In this guide, we refer to this as the “**start-up crowdfunding exemptions**” or “**start-up crowdfunding.**”

Start-up crowdfunding allows a start-up or early stage issuer to raise relatively small amounts of capital by distributing securities to investors without filing a prospectus (**start-up prospectus exemption**).

A funding portal is permitted to facilitate trades of those securities without having to register as a dealer (**start-up registration exemption**). In all participating jurisdictions, a funding portal can also be operated by a registered dealer.

The purpose of this guide is to assist issuers intending to raise funds by relying on the start-up prospectus exemption. In this guide, “**regulator**” means the securities regulator or regulatory authority in a participating jurisdiction.

How Start-up Crowdfunding Works



In order to raise funds using the start-up prospectus exemption, issuers must prepare and post an offering document on a funding portal’s crowdfunding website. Investors will then be able to read about the offering and decide whether to invest. Before investing, investors will have to confirm that they have read the offering document and understood that the investment is risky.

When should an issuer consider start-up crowdfunding?

Before launching a start-up crowdfunding campaign, the management of the issuer should:

- Evaluate other sources of funding, such as a loan from a financial institution
- Assess whether they are willing to invest the time and efforts needed to prepare and run a start-up crowdfunding campaign
- Determine the type and characteristics of securities that will be sold

- Determine the number of securities to be sold and at what price
- Assess if they have the capabilities to manage a great number of security holders

If a start-up crowdfunding campaign is successful, the founders of the issuer may have to give up part of the ownership of the issuer to investors. The issuer will also need to be accountable to investors. Investors will expect to be informed about successes and failures of the issuer's business. Management of the issuer should assess whether they are willing to spend the time and effort to maintain contact with investors.

The start-up prospectus exemption is not available to reporting issuers. Reporting issuers are companies that are required to make continuous disclosure to the public of their business activities by filing financial statements and other documents as required by securities legislation. These types of issuers are considered to be more established than the start-up or early stage issuers that are permitted to use start-up crowdfunding.

Where is start-up crowdfunding available?

The start-up prospectus exemption is only available to issuers that have a head office located in one of the participating jurisdictions (British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick or Nova Scotia). In addition, the investor must be a resident in one of the participating jurisdictions.

If an issuer wants to raise funds in a participating jurisdiction, the issuer will want to make sure that the funding portal they choose is also operating in that participating jurisdiction.

What is the maximum amount that can be raised? Are there any time limitations for raising that amount?

\$250,000 per start-up crowdfunding distribution.

The offering document must indicate a minimum amount that has to be raised before the offering can close. The issuer has a maximum of 90 days to raise the minimum amount, starting on the day the issuer's offering document is first made available to investors through a funding portal's website.

The money will be held in trust by the funding portal until the minimum amount of the offering is reached. The issuer may then complete the offering by issuing the securities.

If the minimum amount is not reached, or the start-up crowdfunding campaign is withdrawn, the funding portal must return the money to the investors.

How often can an issuer raise money using start-up crowdfunding?

An issuer group may complete a maximum of two start-up crowdfunding distributions per calendar year. The issuer group cannot have more than one start-up crowdfunding campaign running at the same time or on different funding portals for the same purpose. The issuer group must wait until the first campaign has ended before launching a second one.

The “**issuer group**” means the issuer, any affiliates of the issuer and any other issuer that is engaged in a common enterprise with the issuer or an affiliate, or whose business is founded or organized by the same person or company who founded or organized the issuer.

What is the maximum amount an issuer can raise from each investor?

\$1,500 per start-up crowdfunding distribution. However, this amount can be increased to \$5,000 if:

- the investor resides in British Columbia, Alberta, Saskatchewan or Ontario;
- the issuer has a head office in British Columbia, Alberta, Saskatchewan or Ontario;
- the start-up crowdfunding distribution is made through a registered dealer; and
- the dealer has determined that the investment is suitable for the investor.

The issuer may require a minimum amount per investor (e.g. \$500).

Compliance with the start-up prospectus exemption

Although each of the participating jurisdictions has their own Start-up Crowdfunding order, the start-up crowdfunding prospectus exemption in each order is substantially harmonized with the other participating jurisdictions.

Nevertheless, the issuer must ensure that they are in compliance with the order in each participating jurisdiction where they are raising funds. Please check the applicable order which can be found on the regulator’s website.

If an issuer does not meet the conditions of the start-up prospectus exemption, then it can no longer rely on that exemption to raise money from investors.

Launching a Start-up Crowdfunding Campaign

Once an issuer has determined that it will launch a start-up crowdfunding campaign, it will need to prepare an offering document and choose a funding portal to post its offering document. Issuers are required to prepare the offering document using Form 1 *Start-up Crowdfunding – Offering Document*.

What is a funding portal?

A funding portal lists start-up crowdfunding campaigns on its website and facilitates the payment of the purchase price from the investor to the issuer. Funding portals will generally charge issuers for hosting a start-up crowdfunding campaign.

The funding portal is responsible for:

- Providing a risk warning form to potential investors
- Holding all investor funds in trust until the issuer raises the minimum funding target
- Returning funds to investors, without deduction, if the issuer does not reach its minimum funding target or if the issuer withdraws the start-up crowdfunding campaign

Please refer to the *Start-up Crowdfunding Guide for Funding Portals* for more information on funding portal requirements for the different types of funding portals.

What types of funding portals are available?

There are two types of funding portals that may facilitate start-up crowdfunding in BC:

- funding portals that are operated by registered investment dealers or exempt market dealers that must provide advice on suitability of the investment to investors, and
- funding portals that are operated by persons relying on the start-up registration exemption and that cannot provide suitability advice

The issuer has the choice of which type of funding portal to use for its start-up crowdfunding campaign.

A funding portal operated by an investment dealer or exempt market dealer must confirm in writing to the issuer that it can provide certain services necessary for start-up crowdfunding, including that it will make the offering document and risk warnings

available to the purchaser through its website. The issuer may also check with a regulator to determine whether the funding portal is authorized to operate in jurisdictions that it proposes to conduct start-up crowdfunding. The contact information for the participating jurisdictions can be found at the end of this guide. In addition, the issuer may want to evaluate other aspects of the funding portal's business, such as finding out about the individuals operating the funding portal, how it handles the funds collected from investors, what participating jurisdiction the funding portal is operating in, and what fees it will charge the issuer for posting its start-up crowdfunding offering document.

What information needs to be in the offering document?

The offering document must include basic information about the business and the offering, how it will use the money and any risk to the project. The offering document must also include the minimum amount needed to be raised to accomplish the issuer's business goals.

The information contained in the offering document must be kept up to date throughout the duration of the start-up crowdfunding campaign. If information contained in the offering document is no longer true, the issuer must amend the offering document as soon as practicable and send the new version to the funding portal. The funding portal will post the new version of the offering document on its website and will notify investors about the amendment.

The offering document does not need to be updated after the start-up crowdfunding campaign is over.

If the issuer raises funds in Québec, the offering document and the risk acknowledgement form must be made available to investors in Québec in French or in French and English.

For additional details on the offering document, including instructions on how to prepare this document, please refer to the separate document "*Preparing an offering document*".

What if an investor changes their mind?

Investors have the right to withdraw their investment within 48 hours following the investor's subscription. Investors also have the right to withdraw their investment within 48 hours of the funding portal notifying the investor of an amendment to an offering document.

To exercise this right of withdrawal, investors must notify the funding portal. The funding portal must give investors the opportunity to exercise this right. The funding

portal must return the funds to an investor who exercises this right, without any deduction, within five business days after the notice.

Completing a Start-up Crowdfunding Campaign

Once the minimum amount has been raised, the issuer has the discretion to close the start-up crowdfunding campaign by issuing the securities to investors. However, the issuer must wait until each investor's 48-hour withdrawal period has expired.

If the issuer has disclosed in the offering document what it will do with any extra funds raised above the minimum amount, then the issuer can continue raising funds provided the issuer closes the offering within the 90-day maximum offering period and up to the maximum amount indicated in the offering document. This maximum amount cannot be more than \$250,000.

At the closing of the distribution, the funding portal releases the funds raised to the issuer.

Can an issuer use another prospectus exemption to meet the minimum amount?

Although an issuer cannot have two start-up crowdfunding campaigns running at the same time or on more than one funding portal, the issuer can raise funds using other prospectus exemptions during a start-up crowdfunding campaign. For example, the issuer may issue securities to an accredited investor. Other prospectus exemptions, such as the accredited investor exemption, are found in the instruments and rules of the local regulator, including [National Instrument 45-106 Prospectus Exemptions](#). The funds raised under other prospectus exemptions can be used to reach the minimum amount stated in the offering document if they are unconditionally available to the issuer. This would not trigger the requirement to amend the offering document by the issuer.

Valérie's objective is to raise a minimum of \$75,000. Through the funding portal, she raised \$45,000 from investors under the start-up crowdfunding exemption. At the same time, Paul, who is considered to be an "accredited investor" because of his income and assets, unconditionally undertakes to invest \$30,000 in Valérie's enterprise. The minimum amount has been reached because Valérie can include Paul's \$30,000 investment as part of the start-up crowdfunding offering minimum amount. By including this amount, Valérie would not have to amend her start-up offering document. Valérie can now close her start-up crowdfunding distribution and ask the funding portal to release the \$45,000 raised on its crowdfunding website as soon as the 48-hour withdrawal period has expired for all investors.

If an issuer raises funds under other prospectus exemptions, it must comply with the start-up crowdfunding exemptions and the legal requirements of the other exemptions. An issuer should seek professional advice if it has any questions regarding compliance.

After the closing

Filing of the offering document and report of exempt distribution

The offering document and a report of exempt distribution must be filed with the regulator of each participating jurisdiction where investors are located no later than 30 days after the closing of the distribution. For example, if the issuer has raised money in Québec and Nova Scotia, the offering document and report of exempt distribution must be filed with the Autorité des marchés financiers and the Nova Scotia Securities Commission.

When filing the offering document, the issuer must include all copies of the offering document including any amended versions.

In addition, the offering document and report of exempt distribution must be filed with the regulator of the participating jurisdiction where the issuer's head office is located, even if no investors were located in this jurisdiction.

The issuer must follow the filing requirements of the applicable participating jurisdiction(s) as indicated in the table below:

Participating Jurisdiction	Filing requirements
British Columbia	<p>What to file:</p> <ul style="list-style-type: none"> • Form 1 <i>Start-up Crowdfunding - Offering Document</i> • Form 45-106F1 <i>Report of Exempt Distribution</i> <p>How to file:</p> <ul style="list-style-type: none"> • Electronically via BC's eServices website (https://eservices.bcsc.bc.ca/). When submitting a report of exempt distribution for a start-up crowdfunding distribution, there will be an option to attach the offering document.
Manitoba New Brunswick Nova Scotia Québec Saskatchewan	<p>What to file:</p> <ul style="list-style-type: none"> • Form 1 <i>Start-up Crowdfunding - Offering Document</i> • Form 5 <i>Start-up Crowdfunding - Report of Exempt Distribution</i> <ul style="list-style-type: none"> ○ Schedule 1 to Form 5 <i>Start-up Crowdfunding – Purchaser Information</i>

	<p>How to file:</p> <ul style="list-style-type: none"> • Electronically through SEDAR, in accordance with National Instrument 13-101 <i>System for Electronic Document Analysis and Retrieval</i> (SEDAR) <p>The Canadian Securities Administrators (CSA) has information regarding the SEDAR filing requirements. Please see:</p> <ul style="list-style-type: none"> • CSA Staff Notice 13-323 – Frequently Asked Questions About Making Exempt Market Offering and Disclosure Filings on SEDAR • CSA website on Reports of Exempt Distribution contains links to the reports for start-up crowdfunding prospectus exemption for SEDAR filing
<p>Alberta</p>	<p>What to file:</p> <ul style="list-style-type: none"> • Form 1 <i>Startup Crowdfunding – Offering Document</i> • Form 45-106F1 <i>Report of Exempt Distribution</i> <p>How to file:</p> <ul style="list-style-type: none"> • See instructions for Manitoba, New Brunswick, Nova Scotia, Québec and Saskatchewan, above.
<p>Ontario</p>	<p>What to file:</p> <ul style="list-style-type: none"> • Form 1 <i>Start-up Crowdfunding - Offering Document</i> • Form 45-106F1 <i>Report of Exempt Distribution</i> <p>How to file:</p> <ul style="list-style-type: none"> • Electronically through the OSC Electronic Filing Portal at https://www.osc.gov.on.ca/filings

Different filing requirements

An issuer may be subject to different filing requirements if they are required to file documents in Manitoba and in any of the other participating jurisdiction(s).

Valérie's brilliant idea raised \$45,000 through start-up crowdfunding. She raised the following funds from investors: \$10,000 in Québec, \$12,000 in New Brunswick, and \$23,000 in British Columbia.

To meet her filing requirements, Valérie will need to file the Form 1 and Form 5 electronically through SEDAR. She indicates on SEDAR that she is filing for both Québec and New Brunswick.

She will also need to file the Form 1 and Form 45-106F1 electronically via BC's eServices website (<https://eservices.bcsc.bc.ca/>).

Confirmation notice to investors

Within 30 days after the closing of the distribution, the issuer must send a confirmation notice to each investor who purchases securities with the following information:

- The date of subscription and the closing date of the distribution
- The quantity and description of securities purchased
- The price paid per security
- The total commission, fee and any other amounts paid by the issuer to the funding portal in respect of the start-up crowdfunding distribution

Preparing an offering document

Issuers are responsible for preparing an offering document that investors will read to determine if they want to invest in that issuer. The offering document must be prepared using Form 45-535 F1 *Start-up Crowdfunding – Offering Document*. The issuer must provide information for each of the items in the form.

The following will help issuers complete certain items of the offering document and should be read together with the form.

Item 2: The issuer

- 2.1 (a) The organizing documents are the issuer's articles of incorporation, limited partnership agreement or other similar documents.

(b) The head office is generally where the people managing the issuer, including the CEO, maintain their offices. This may be the same address, or different from the registered office address, depending on the legal structure of the corporation. The address of the head office should be a physical address and not be a P.O. Box.

Item 4: Management

4.1 The people named here are important for investors to assess if they want to invest in the issuer. These people should preferably have experience in managing a business, or in the same industry as the issuer.

Director: An individual occupying the position of director with the issuer. If the issuer is a limited partnership, information should also be provided for the directors of the general partner.

Officer: Includes the CEO, president, a vice-president, corporate secretary, general manager or any other individual who performs functions of officer for the issuer. If the issuer is a limited partnership, information should also be provided for the officers of the general partner.

Promoter: A person who takes the initiative in founding or organizing the issuer is generally considered a promoter of the issuer.

Control person: A person that holds more than 20% of the voting rights, alone or with other persons acting in concert, is generally considered a control person of the issuer.

4.2 If any of the persons listed in item 4.1 is or has been subject to any of the proceedings described in item 4.2, state this fact. Provide the name of the person involved and enough details on the time, nature and the outcome of the proceedings.

A quasi-criminal offence may include offences under the *Income Tax Act* (R.S.C. 1985, c. 1 (5th Suppl.)), the *Immigration and Refugee Protection Act* (R.S.C., 2001, c. 27) or the tax, immigration, drugs, firearms, money laundering or securities legislation of any province or territory of Canada or foreign jurisdiction.

Item 5: Start-up crowdfunding distribution

5.1 The issuer must provide the offering document to a funding portal. The funding portal must make the offering document available on its website before the issuer can begin to raise money. If the issuer is using a funding portal that is operated by

a registered dealer, it must provide the name of the registered dealer in addition to the name of the funding portal. The offering document can only be posted on one funding portal.

5.3 (a) A start-up crowdfunding distribution is not allowed to close if the minimum offering amount has not been reached within 90 days. The offering document will be posted on the funding portal's website on the date agreed to by the issuer and the funding portal.

(b) During the offering period, the issuer must immediately amend the offering document if the information that it contains is no longer true. Provide the date the amended offering document is posted on the funding portal's website and a description of the information that was amended. If the offering document is amended, the issuer must not modify the date in (a). Investors will have the right to withdraw their subscription within 48 hours of the funding portal notifying the investor that the offering document has been amended.

If the offering document has not been amended, (b) is not applicable.

5.5 The issuer must tell investors what rights are attached to the securities described in item 5.4, if any. This information is usually found in the organizing documents referred to in item 6.3.

5.6 The restrictions and conditions to be described here are generally found in shareholder's agreements or limited partnership agreements.

A tag-along right is a contractual obligation used to protect minority shareholders. The right assures that if the majority shareholder sells his stake, minority shareholders have the right to join and sell their securities on the same terms and conditions as would apply to the majority shareholder.

A drag-along right is designed to protect a majority shareholder. A drag-along right enables a majority shareholder to force minority shareholders to join in the sale of a company, by giving the minority shareholders the same price, terms, and conditions as any other seller.

A pre-emptive right is the right of existing shareholders to acquire new shares issued by the issuer. It can allow existing shareholders to maintain their proportional ownership of the issuer, preventing stock dilution.

5.7 The issuer must set a minimum amount to be raised before it can close a start-up crowdfunding distribution. The maximum amount cannot exceed \$250,000.

The amount raised needs to be equal to the total number of securities the issuer wishes to issue multiplied by the price per security.

- 5.8 The issuer has the option to set a minimum investment amount per investor. This amount cannot be over \$1,500. If the issuer does not wish to set a minimum investment amount, item 5.8 should be left blank. The minimum investment amount per investor cannot be below the price per security.

Item 6: Issuer's business

- 6.1 The description of the issuer's business is a very important part of the offering document. Enough details should be provided for an investor to clearly understand what the issuer does, or intends to do. Consideration should be given to the following:
- What makes the issuer's business special and different from other competitors in the industry?
 - What milestones has the issuer already reached?
 - Where does the issuer see its business in three, five and ten years?
 - What are the issuer's future plans and hopes for its business and how does it plan to get there?
 - What is the issuer's management experience in running a business or in the same industry?
- 6.2 Indicate whether the issuer is a corporation, a limited partnership, a general partnership or other. Also, indicate the province, territory or state where the issuer is incorporated or organized.
- 6.3 Specify where investors can review the issuer's organizing documents. Online access to these documents is convenient for investors.
- 6.5 The issuer is not required to provide financial statements to investors in connection with a start-up crowdfunding distribution. However, many investors use financial statements to assess and compare investment opportunities and may be reluctant to invest in a business that does not provide this type of information.

The issuer can choose to make financial statements available to investors. If so, it must include the statement provided in item 6.5 in the offering document. The issuer may want to post the financial statements on the issuer's website for the convenience of its investors.

The issuer should not, however, include the financial statements with or provide a link to the financial statements in the offering document. If the issuer chooses to include the financial statements or a link in the offering document, there may be an obligation under securities laws to prepare the financial statements using certain accounting principles and to audit the financial statements using certain auditing standards.

Item 7: Use of funds

7.1 If the issuer has previously raised funds, specify for which purpose they were used. Include enough details so an investor can clearly understand:

- How much money the issuer has already raised
- How the issuer raised it
- What prospectus exemption was used
- How has that money been used

If the issuer has not previously raised funds, state this fact.

7.2 The issuer must tell investors what it will do with the money raised from this start-up crowdfunding distribution by providing enough details to allow investors to make a reasoned investment decision. Incomplete or unrealistic information will not help the issuer raise more money. Therefore, the issuer should make sure its plans are realistic and achievable.

Item 8: Previous start-up crowdfunding distributions

8.1 Provide the information listed under item 8.1 if any of the persons listed in item 4.1 have been involved in a start-up crowdfunding distribution in any of the participating jurisdictions in the past five years, whether with the issuer, or with another issuer.

Item 9: Compensation paid to funding portal

9.1 Describe the fees (e.g., commission, arranging fee or other fee) that the funding portal is charging for its services. Describe each type of fee and the estimated amount to be paid for each type. If a commission is being paid, indicate the percentage that the commission will represent of the gross proceeds of the offering (assuming both the minimum and maximum offering).

Item 10: Risk factors

- 10.1 Explain the risks of investing in the issuer for the investor in a meaningful way, avoiding overly general or “boilerplate” disclosure. Disclose both the risk and the factual basis for it. Risks can relate to the issuer’s business, its industry, its clients, etc.

Issuers should be truthful, reasonable and clear. Investors deserve to be able to make a reasoned decision based on all the information, even the downside. Issuers may indicate how they plan to mitigate these risks, but should not de-emphasize the risks by including excessive caveats or conditions.

Item 11: Reporting obligations

- 11.1 Tell investors how the issuer will keep them informed about the business and their investment.

The regulator does not require that the issuer report to investors, but investors will want to be kept informed. If the issuer fails to do this, it may create disgruntled investors that can make it difficult for the issuer to raise money in the future.

Setting out a reasonable reporting plan is important. Issuers should make sure the plan is realistic. Reporting doesn’t have to be complex or costly. Reporting can be through newsletters, social media sites, email, financial statements or similar documents. Issuers should go over the milestones that have been met, confirm how investors’ money was used, and discuss future plans.

Where can I get further information?

For more information about the start-up crowdfunding exemptions in the other participating jurisdictions, please refer to the following contact information:

Alberta
Alberta Securities Commission
Telephone: 403-355-4151
E-mail: inquiries@asc.ca
Website: www.albertasecurities.com

Saskatchewan
Financial and Consumer Affairs Authority of Saskatchewan
Securities Division
Telephone: 306-787-5645
E-mail: exemptions@gov.sk.ca
www.fcaa.gov.sk.ca

Manitoba	The Manitoba Securities Commission Toll free in Manitoba: 1-800-655-2548 E-mail: exemptions.msc@gov.mb.ca www.msc.gov.mb.ca
Ontario	Ontario Securities Commission Toll free: 1-877-785-1555 E-mail: inquiries@osc.gov.on.ca www.osc.ca
Québec	Autorité des marchés financiers Direction du financement des sociétés Toll free in Québec: 1-877-525-0337 E-mail: financement-participatif@lautorite.qc.ca www.lautorite.qc.ca
New Brunswick	Financial and Consumer Services Commission Toll free: 1-866-933-2222 E-mail: emf-md@fcnb.ca www.fcnb.ca
Nova Scotia	Nova Scotia Securities Commission Toll free in Nova Scotia: 1-855-424-2499 E-mail: nssc.crowdfunding@novascotia.ca www.nssc.novascotia.ca

The information in this Guide is for educational purposes only and does not constitute legal advice.

If any information in this Guide is inconsistent with Blanket Order 45-502 Start-up Crowdfunding Prospectus and Registration Exemption, please follow the instrument and the related forms.

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Securities crowdfunding

With securities crowdfunding, a business raises funds through the Internet by issuing securities (such as bonds or shares) to many people.

In Canada, all trading of securities is subject to legal obligations. For example, a business seeking to raise capital by issuing securities must file a prospectus with the securities regulator of their province or territory or have an exemption from the prospectus requirement under securities laws.

These obligations, however, can be costly for start-ups, small businesses and other issuers. The securities regulators in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick and Nova Scotia (the **participating jurisdictions**) allow start-ups and small businesses to raise funds using securities crowdfunding without filing a prospectus or preparing financial statements. In this guide, we refer to this as the “**start-up crowdfunding exemptions**” or “**start-up crowdfunding**”.

Top 3 Things to do before investing in a start-up crowdfunding project

#1 Know the process

#2 Do your homework

#3 Understand the risks

#1 – Know the Process

How Start-up Crowdfunding Works



Start-ups and small businesses (issuers)

The business has an idea but needs to raise funds to make it happen. It must prepare an offering document that includes basic information about the business and the offering, how it will use the money and the risks in investing in the business. The business must state the minimum amount it needs to raise to accomplish its goal. The business must use a crowdfunding website called a funding portal to raise funds this way.

Investor (you)

You, the investor, spot an interesting business on a funding portal website. After reading the business' offering document and doing your homework, you may decide to invest up to the amount described in the "How Much Can I Invest?" section of this guide. Before you complete your investment, the funding portal will ask you to confirm that you understand the risks and have read and understood the business' offering document. You have 48 hours after your investment to change your mind and get your money back.

Crowdfunding website (funding portal)

The funding portal posts start-up crowdfunding projects on its website. The funding portal is responsible for:

- providing a risk warning form to potential investors;
- holding all investor funds in trust until the business raises the minimum funding target
- returning funds to investors, without deduction, if the business does not reach its minimum funding target or if the business withdraws the start-up crowdfunding campaign

When you enter a funding portal website, you will see a pop-up notice telling you whether the funding portal is:

- operated by a registered dealer under Canadian securities legislation. Before you invest, these portals must determine if the investment is suitable for you; or
- not registered under Canadian securities legislation. These portals cannot give you advice. You must decide for yourself if the investment is right for you.

You will be asked to acknowledge that you have read this pop-up notice before entering the funding portal website.

You can check with the BCSC to see if the funding portal can do business in BC. You can do this by contacting BCSC inquiries at 604-899-6854 or 1-800-373-6393 (Email: inquiries@bcsc.bc.ca).

#2 Do your homework

Before investing, you should:

- Read the start-up crowdfunding offering document posted on the funding portal. It contains basic information about the business' activities, its management, its financial condition, the amount it wants to raise, how the money raised will be used and the risks. **The securities regulators have not reviewed or approved the offering document. It is your responsibility to understand the information in the offering document.**
- Search the Internet for information on the business, its industry and the people operating its business. Check their background to see if they were ever disciplined for bad business practices. You can contact the business and the funding portal for further information.

- The business may also raise funds at the same time other than through start-up crowdfunding. Those investors may receive more or less information than what you are provided in the start-up crowdfunding offering document.
- You can ask the business about any previous successes or failures it may have had trying to raise funds in the past. The start-up offering document must disclose whether that business had any previous start-up crowdfunding distributions and whether they were successful or not. However, businesses are not required to report any failed or withdrawn offerings if they raised funds in another way.
- If the business gives you financial statements, **you should know that those financial statements have not been provided to or reviewed by securities regulators and they are not part of the offering document.** You should ask the business whether the financial statements have been audited and which accounting standards were used to prepare the financial statements. Do the financial statements include a balance sheet, income statement, statement of changes in financial position and detailed supporting notes? If you are not comfortable or proficient with financial statements, visit InvestRight.org to learn more on how to understand company material.
- Consider their business plan. How is the business going to grow? How will it make money and within what period? Watch for unsupportable claims about the business' future success.
- Consider how you will receive a return on your investment. What type of securities is the business going to give you in exchange for your investment? The securities must be described in the offering document. If the business is offering debt securities, consider when the business intends to pay you back. If the business is offering equity securities, such as common shares, read the rights attached to these securities described in the offering document.
- Review all documents relating to your investment. There may be other rights and restrictions about the investment detailed in the business shareholder's agreement or other agreements.
- Think carefully about your risk tolerance and what you can afford to lose if the investment doesn't turn out as expected. Consider the *cons* as well as the *pros*.

- Ask the business any other questions you may have. The offering document will provide contact information for someone at the business who is able to answer your questions.

#3 Understand the risks

To make an informed decision, you must have a good understanding of the risks related to the start-up crowdfunding offering. These include:

- Securities of start-ups or small businesses are risky. Statistics show that a high percentage of start-ups and small businesses fail. You could lose the entire amount you paid for your investment.
- What is your risk tolerance? If your risk tolerance is low, an investment in a start-up or small business may not be suitable for you.
- What do you know about the individuals operating the business? Do they have the knowledge and experience required to manage it? Businesses are sometimes managed by inexperienced individuals. Find out more about the individuals operating the business before investing.
- Do you have the resources to be patient? If you think you will have to resell your securities in the short term, this type of investment may not be suitable for you. Securities purchased through start-up crowdfunding offerings are not publicly traded. You may have to wait indefinitely before reselling the securities or you may not be able to resell them at all.
- A great deal of information and analysis is available about public corporations. This is not the case for start-ups and small businesses. Unlike reporting issuers (such as companies listed on an exchange), start-ups and small businesses are not required to file audited financial statements or other periodic disclosure. You may receive much less information about the business before or after you invest.
- Once you have made the investment, the start-up or small business will not generally have any obligation to provide you with updates (such as an annual report). You will have to track your investment on your own.

If you are willing to take risks and invest in a start-up, you may want to consider investing in a business that operates in a sector you know well. You may be in a better position to assess its likelihood of success.

The start-up crowdfunding process – an example

Oliver has heard about start-up crowdfunding. He goes to ABC Funding Portal's website and sees a pop-up notice that says ABC Funding Portal is not registered. He checks the names of their management and does some research to see if they have ever been disciplined for bad business practices.

After satisfying himself about ABC Funding Portal, Oliver browses through the start-up crowdfunding projects listed on its website. He comes across Valerie's Maple Cola Company. Valerie wants to raise \$75,000 to market and bottle soft drinks flavoured with maple syrup and other local products. Oliver thinks the investment looks interesting.

Oliver reads Valerie's Maple Cola Company's start-up crowdfunding offering document carefully, particularly the section that warns of the risks of this investment. Oliver does some additional research on Valerie's Maple Cola Company, Valerie herself as well as the rest of her management team, and the beverage manufacturing business.

Oliver decides he wants to invest \$750 in Valerie's Maple Cola Company. He reviews the risk warning on ABC Funding Portal website. He confirms, by ticking a box, that he has read the offering document and understands the risks he is taking. He pays for the investment.

ABC Funding Portal holds Oliver's money in trust until Valerie raises at least \$75,000. If Valerie doesn't raise her \$75,000 target, ABC Funding Portal must return Oliver's money to him, without any deductions.

If Valerie successfully raises \$75,000, she can proceed to complete the start-up crowdfunding offering. Oliver is now a shareholder of Valerie's Maple Cola Company. Upon completion of the offering, Oliver receives a confirmation setting out the number of the common shares he purchased and how much he paid.

There is no guarantee as to the future value of Oliver's investment. Oliver will have to hold onto these securities for an indefinite period or even be unable to resell them at all.

Frequently asked questions about start-up crowdfunding

Where can I find start-up crowdfunding offerings?

You will find start-up crowdfunding offerings posted on the websites of funding portals. Before a funding portal can operate in any Canadian jurisdiction, it must meet certain conditions such as delivering mandatory documents to the securities regulatory authority in that jurisdiction. You can check with the BCSC to see whether any particular funding portal is allowed to do business in BC by calling the phone number listed below under “*Where can I get further information?*”

Should I get investment advice?

You should use a registered portal if you want or need investment advice because they must determine whether an investment is suitable for you.

If you are viewing offerings on an unregistered funding portal, you will not receive investment advice; they are prohibited from telling you whether the securities you are subscribing for are a good investment. You must be prepared to make your own investment decision when investing through an unregistered funding portal. Unregistered portals are also prohibited from charging you a fee or commission for investing through their website.

When you enter a funding portal website, a pop-up notice will inform you whether or not the funding portal is operated by a registered dealer. To check if the funding portal is operated by a registered dealer, go to www.aretheyregistered.ca.

How much can I invest?

You can invest up to \$1,500 in a start-up crowdfunding offering. However, this amount can be increased to \$5,000 if all of the following apply:

- you live in British Columbia, Alberta, Saskatchewan or Ontario;
- you are interested in investing in a business with a head office in British Columbia, Alberta, Saskatchewan or Ontario;
- the start-up crowdfunding distribution is made through a registered dealer; and
- the dealer has determined that the investment is suitable for you.

What will I get in return for investing in a start-up crowdfunding project?

With securities crowdfunding, investors receive securities in exchange for their investment. This is different than other types of crowdfunding, where you may get a product. Start-up crowdfunding is restricted to particular types of securities: debt securities, such as bonds; equity securities, such as common shares or preference shares; limited partnership units; and convertible securities, such as warrants, that are convertible into either common shares or preference shares.

The offering document must describe the type of security you will receive in exchange for your investment.

What if I change my mind?

Once you have committed to purchasing securities:

- You may withdraw your investment within 48 hours of subscription if you no longer wish to invest; or
- If the business amends the offering document, you will also have the right to withdraw your investment within 48 hours of the funding portal notifying you that the offering document has been amended.

In either case, you must notify the funding portal that you wish to withdraw before the end of this 48-hour period. After receiving your notification, the funding portal will return your funds to you within 5 business days.

Where can I get further information?

For more information about the start-up crowdfunding exemptions in the other participating jurisdictions, please refer to the following contact information:

Alberta

Alberta Securities Commission

Telephone: 403-355-4151

E-mail: inquiries@asc.ca

Website: www.albertasecurities.com

Saskatchewan

Financial and Consumer Affairs Authority of Saskatchewan
Securities Division

Telephone: 306-787-5645

E-mail: exemptions@gov.sk.ca

Website: www.fcaa.gov.sk.ca

Manitoba	The Manitoba Securities Commission Toll free in Manitoba: 1-800-655-2548 E-mail: exemptions.msc@gov.mb.ca Website: www.mbsecurities.ca
Ontario	Ontario Securities Commission Toll free: 1-877-785-1555 E-mail: inquiries@osc.gov.on.ca www.osc.ca
Québec	Autorité des marchés financiers Direction du financement des sociétés Toll free in Québec: 1-877-525-0337 E-mail: financement-participatif@lautorite.qc.ca Website: www.lautorite.qc.ca
New Brunswick	Financial and Consumer Services Commission Toll free: 1-866-933-2222 E-mail: emf-md@fcnb.ca Website: www.fcnb.ca
Nova Scotia	Nova Scotia Securities Commission Toll free in Nova Scotia: 1-855-424-2499 E-mail: nssc.crowdfunding@novascotia.ca Website: www.nssc.novascotia.ca

The information in this Guide is for educational purposes only and does not constitute legal advice.

If any information in this Guide is inconsistent with Blanket Order 45-502 Start-up Crowdfunding Prospectus and Registration Exemption, please follow the instrument and the related forms.

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Start-up Crowdfunding Guide for Funding Portals

Crowdfunding is a process through which an individual or a business can raise small amounts of money from a large number of people, typically through the Internet. The objective is to raise sufficient funds in order to carry out a specific project. There are different types of crowdfunding, such as by donation, or pre-selling of products, and securities crowdfunding. This guide discusses securities crowdfunding.

Securities crowdfunding

In Canada, all trading of securities is subject to legal obligations. For example, a person cannot be in the business of trading securities unless the person is registered in the province or territory where it is carrying on this business or has an exemption from the registration requirement under securities laws. Similarly, a business seeking to raise capital by issuing securities must file a prospectus with the securities regulator of their province or territory or have an exemption from the prospectus requirements under securities laws.

These obligations, however, can be costly for start-ups and early stage issuers. The securities regulators in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick and Nova Scotia (the participating jurisdictions) have made available exemptions to facilitate securities crowdfunding (the start-up crowdfunding exemptions) to help make it easier for start-ups and early-stage businesses to raise money by issuing securities.

The start-up crowdfunding exemptions allow:

- a start-up or early stage issuer to raise relatively small amounts of capital by distributing securities to investors without filing a prospectus (the start-up prospectus exemption)
- a funding portal to facilitate trades of those securities without having to register as a dealer (the start-up registration exemption), although a funding portal can be operated by a registered dealer

Start-ups and early stage issuers intending to conduct a start-up crowdfunding offering must use a funding portal. A funding portal lists investment opportunities and facilitates the payment of the purchase price from the investor to the issuer.

The purpose of this guide is to assist funding portals. In this guide, “regulator” means the securities regulator or regulatory authority in a participating jurisdiction.

There are two types of funding portals that may facilitate start-up crowdfunding:

- funding portals operated by persons relying on the start-up registration exemption
- funding portals operated by registered investment dealers or exempt market dealers

Funding portals operating under the start-up registration exemption

A person operating a funding portal does not have to register as a dealer if they meet all conditions of the start-up registration exemption. These conditions include, among other things, that the funding portal must:

- have its head office in Canada
- have a majority of its directors be Canadian residents
- not be registered under Canadian securities legislation
- not tell investors an investment is suitable for them or otherwise discuss the merits of an investment
 - This means the funding portal cannot tell an investor that the securities offered are a good investment or that the investor should make an investment for whatever reason. The funding portal must refrain from saying or doing anything that might lead an investor to think that they should buy the securities because the securities somehow meet their investment needs or objectives.
 - However, the funding portal can give factual information about the securities. For example, it may tell investors about the features of the securities, the risks of the investment, how start-up crowdfunding works, and other items of a general, factual nature.
- must make available the issuers' offering documents and risk warnings on its website
 - A funding portal can carry out reviews of issuers before making their offering documents available on its website to protect the funding portal's own interests or reputation.
 - Funding portals may want to be mindful that their website could be used in ways not intended by the funding portal. For example, peer-to-peer messaging systems on a funding portal's website might be used by the funding portal's visitors to solicit the purchase and sale of other securities without the portal's knowledge. This may result in the funding portal indirectly facilitating illegal securities distributions.
- ensure that investors confirm online, by ticking a box, that they have read and understood the offering document and risk warning available on the funding portal
- take reasonable measures to ensure that the head office of each issuer using the funding portal is in a participating jurisdiction and that each investor is a resident of a participating jurisdiction

- not allow entry to its website by any person until that person acknowledges that they are entering a website of a funding portal:
 - that is not operated by a registered dealer under Canadian securities legislation, and
 - that will not provide advice about the suitability or the merits of any investment

the regulators call this the “**pop-up acknowledgement**”. For further information on the mechanics of the pop-up acknowledgement, please see the section in this guide entitled *Pop-up Acknowledgement*

- not receive a commission or fee from an investor
- discloses on its website:
 - the full legal name, municipality and jurisdiction of residence, business mailing and e-mail address, and business telephone number of each promoter,¹ director, officer and control person² (**principals**) of the funding portal, and
 - the names of the participating jurisdictions where the funding portal is operating and relying on the start-up registration exemption
 - Each of the participating jurisdictions has their own Start-up Crowdfunding Exemptions order (**blanket order**). With some exceptions, each blanket order is substantially harmonized with the other participating jurisdictions. However, the funding portal must ensure that they are in compliance with the blanket order in each participating jurisdiction where they are operating. Please check the applicable blanket orders which can be found on the regulators’ website.

The regulators expect that these disclosures will be prominently displayed on the funding portal’s website

¹ A person who founded, organized or significantly reorganized the funding portal is generally considered to be a promoter.

² A person who holds a sufficient number of voting rights to control the funding portal or who holds 20% or more of the voting rights of the funding portal is generally considered a control person of the funding portal.

- hold investors' assets separate from the funding portal's property, in trust for the investor and, in the case of cash, at a Canadian financial institution
 - This requirement is a fundamental obligation of the start-up registration exemption. Funding portals should expect that regulators will assess how the funding portal is handling client assets at both the initial stage and during future compliance reviews. The regulators intend to ensure that these conditions are followed closely.
- keep its books and records, including its compliance procedures, at its head office for eight years from the date a record is created
- not facilitate the distribution of securities to purchasers under prospectus exemptions other than the start-up prospectus exemption.

In Ontario, an unregistered funding portal must also disclose on its website the process the funding portal will use to notify purchasers if it becomes insolvent or discontinues operations, and how the funding portal will return the purchasers' assets it is holding to those purchasers.

Before starting operations

Step one

A funding portal intending to rely on the start-up registration exemption must deliver the following forms to regulators:

- a completed Form 3 – *Start-up Crowdfunding - Funding Portal Information Form* (Form 3)
- a completed Form 4 – *Start-up Crowdfunding - Funding Portal - Individual Information Form* (Form 4) for each principal of the funding portal
- any other completed documents and any additional information that may be requested by the regulators

Submitting the following documents to the regulators with the Form 3 may help expedite the process:

- business plans and financial statements, if the funding portal intends to facilitate start-up crowdfunding distributions in Québec
- organizing documents such as articles and certificate of incorporation or partnership agreement if the funding portal intends to facilitate start-up crowdfunding distributions in Saskatchewan, Manitoba, Québec, or Nova Scotia

- business registration numbers and proof of extra-provincial registration if the funding portal intends to facilitate start-up crowdfunding distributions in Saskatchewan, Manitoba, Québec, or Nova Scotia
- documents describing the funding portal's process and procedure for handling investors' funds, including the following details:
 - the name of the Canadian financial institution where the trust account for investors' cash is located
 - the name of the signatories on that trust account and their role with the funding portal
 - how the investors' assets will be kept separate and apart from the funding portal's assets
 - how the cash will flow from: (i) the investors to the funding portal's trust account; (ii) from the funding portal's trust account back to the investors' bank accounts in the event that the offering does not close; and (iii) from the funding portal's trust account to the issuer in the event that the offering does close
- a copy of the trust agreement for the funding portal's trust account with a Canadian financial institution or details surrounding the establishment of this account

The regulators may also request access to the funding portal's website in a test environment when the website is complete and ready for viewing.

The funding portal must deliver the forms and documents by e-mail to the regulator in each participating jurisdiction where the funding portal intends to facilitate start-up crowdfunding distributions. For example, a funding portal with a head office in Saskatchewan that intends to seek funds from investors in all participating jurisdictions must deliver the forms and documents described in this guide to the Financial and Consumer Affairs Authority of Saskatchewan and the regulators in each of the other participating jurisdictions.

Delivery of the forms, and documents by the funding portal is only the first step and does not mean that the funding portal can start operations. The regulators may have questions for the funding portal regarding these forms and documents.

Step two

Before starting operations, the funding portal must receive written confirmation from the regulator that the forms and documents delivered to the regulator in step one are complete.

Please note that the regulator may notify the funding portal that it cannot use the start-up registration exemption because its principals, or their past conduct, demonstrate a lack of integrity, financial responsibility or relevant knowledge or expertise.

If a change occurs and the information in the forms and documents delivered to a regulator are no longer up-to-date, the funding portal must update the information by delivering a new form or document setting out the change. For example, if management at a funding portal changes, an updated funding portal information form as well as a funding portal individual information form for each new officer must be delivered to the regulators.

In Ontario, an unregistered funding portal must file the Form 3, Forms 4 and supporting documents and then wait 30 days before soliciting investors. During the 30-day waiting period the Ontario Securities Commission may notify the funding portal that it has not satisfied the start-up registration exemption and cannot operate as an exempt funding portal. If this occurs, the funding portal must file amended documents with the regulators and wait a 30 day period from the date the revised documents are filed before operating.

Some of the reasons this notification may be given include:

- **the documents the funding portal delivered are incomplete,**
- **the funding portal or any of its principals, or any entity it or its principals has been the principal of has had a judgment, sanction or similar order imposed against it based on fraud, theft, breach of trust, insider trading, or allegations of similar conduct, or**
- **the policies and procedures for handling funds in relation to a start-up crowdfunding distribution described in the funding portal information form and supporting documents does not satisfy the conditions of the start-up registration exemption.**

Compliance with laws and regulations

The funding portal's activities are subject to the securities laws of the jurisdictions where its head office or other places of business are located, as well as the jurisdictions where the issuers and purchasers are resident.

If a funding portal intending to rely on the start-up registration exemption has its head office located in a jurisdiction where that exemption is not available then the funding portal may be required to be registered as a dealer. Once registered as a dealer in any

jurisdiction then the start-up registration exemption is no longer available (see later section on *Funding portals operated by registered dealers*).

Failing to comply with local securities laws is a serious offence that could prevent the funding portal from being able to rely on the start-up registration exemption. The funding portal must also ensure that it complies with all other applicable laws and regulations of a participating jurisdiction. We encourage funding portals to consult a lawyer for advice.

Regulators in the participating jurisdictions plan to conduct compliance reviews of funding portals relying on the start-up registration exemption soon after the commencement of operations. If a funding portal does not meet the conditions of the start-up registration exemption, then it cannot rely on that registration exemption.

In Ontario, an unregistered funding portal must certify, within ten days of a calendar year-end, that it has sufficient working capital to continue its operations for at least the next 12 months. This is done by filing the necessary Form 5 with the Ontario Securities Commission.

A funding portal's working capital is calculated based on current assets less current liabilities. The terms "current assets" and "current liabilities" are defined under Canadian GAAP. Current assets generally include assets such as cash, accounts receivable, inventory and other assets that can be realised, sold or consumed within a year. Current liabilities generally include accounts payable, wages, taxes, and the portion of debt to come due within a year.

Good practices for compliance with this condition include:

- **Keeping documentation that is regularly maintained to ensure effective monitoring; and**
- **Establishing, maintaining and applying a system of controls and supervision sufficient to ensure the accuracy of the documents, including financial statements, used to support the funding portal's assessment of working capital.**

"Pop-up" Acknowledgement

The start-up crowdfunding exemptions require investors to acknowledge certain information before entering the platform of a funding portal, which may be the funding portal's website or app. This requirement does not distinguish between where or how

the investor enters the funding portal's platform. As a result, funding portals must design their platform so that investors acknowledge the required information regardless of whether those investors enter the platform through the funding portal's home page or through another page on the funding portal's website.

The funding portal should also manage the risk that potential investors are visiting the funding portal's platform using a shared computer, tablet, or other mobile device. In other words, multiple people in a household may be entering the funding portal's platform at different times using the same device. As a result, in order to comply with the pop-up acknowledgment requirements, the funding portal should consider designing their website so that the required pop-up acknowledgements reappear each time the investor's internet browser is closed and re-opened.

We expect the pop-up acknowledgement to appear in the following circumstances:

<p>The pop-up acknowledgement should appear upon the first and every subsequent time a person enters a funding portal's website. This means that after opening their internet browser:</p> <ul style="list-style-type: none">(a) If a person lands on any page of a funding portal's platform (home page or other page) the pop-up acknowledgment should appear.(b) If the person clicks "I acknowledge" and then immediately closes out of their browser, when the person goes back to any page on a funding portal's platform, the pop-up acknowledgment should appear. The result is that the same person will have to click on "I acknowledge" to go back into the funding portal's platform regardless of the fact that they had just been to that platform.
<p>The pop-up acknowledgement should appear regardless of a person's entry point to the platform (home page or other page). For example:</p> <ul style="list-style-type: none">(c) If a person were to search the name of the funding portal and finds a link to the funding portal's platform, the link would take the person to the funding portal's home page and a pop-up acknowledgement would appear.(d) If a person were to search the name of the funding portal and finds a link to the funding portal's issuer-offering page, the link would take the person to that page of the funding portal's platform and a pop-up acknowledgement would appear.
<p>Once a person clicks "I acknowledge" and enters the funding portal's platform, they can navigate from page to page within the platform without the re-appearance of the pop-up acknowledgement.</p>

Funding portals operated by registered dealers

Registered exempt market dealers and investment dealers are allowed to operate start-up funding portals. Exempt market dealers and investment dealers that operate funding portals must:

- meet their existing registration obligations under securities legislation (including the know-your-client, know-your-product and suitability obligations owed to investors)
- confirm to issuers that the funding portal meets certain of the conditions in the start-up prospectus exemption, such as making an offering document and risk warning available to investors on the funding portal's website
- prompt any person entering the funding portal's website to acknowledge that the funding portal is operated by a registered dealer that will provide suitability advice
- file a Form 33-109F5 *Change of Registration Information* that describes the change in its business to include operating a funding portal
- must disclose all fees charged to investors in accordance with relationship disclosure requirements under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*

An offering conducted through a funding portal operated by a registered dealer is permitted to facilitate a larger investment. Typically, an investor may invest up to \$1,500 under the start-up prospectus exemption. However, in British Columbia, Alberta, Saskatchewan and Ontario, investors can purchase up to \$5,000 if the registered dealer has determined that the investment is suitable for the investor.

How does start-up crowdfunding work?

Issuers are responsible for preparing an offering document that complies with the prescribed form in the province they are based, and the province the investor resides in. In particular, issuers must indicate the minimum amount necessary to close a start-up crowdfunding distribution. Issuers will provide the offering document to the funding portal to post online. The funding portal must take reasonable measures to ensure that the issuer is a resident of a participating jurisdiction where the offering document is made available. Investors will read the offering document and decide whether or not to invest.

Before accepting an investment, a funding portal must obtain confirmation from the investor that he or she has read and understood the offering document and the risks described in the risk acknowledgement form. A funding portal must obtain the investor's personal information and take reasonable measures to ensure the investor resides in a participating jurisdiction.

An issuer cannot close a distribution if it has not raised the minimum amount set out in its offering document and before each purchaser's right to withdraw has expired. At the closing:

- the issuer distributes shares or other eligible securities to investors
- the funding portal releases funds to the issuer

No later than 15 days following the closing of the distribution, the funding portal must notify investors that the funds have been released to the issuer, and it must provide the issuer with the following information on each investor:

- Full name
- Address
- Telephone number
- E-mail address
- Number of securities purchased
- Total purchase price

The issuer requires this investor information in order to complete a report of exempt distribution. When providing investor information to the issuer, we encourage the funding portal to use the same spreadsheet that the issuer is required to use for filing. Please refer to the *Start-up Crowdfunding Guide for Businesses* for more information on the issuer's filing requirements.

If the issuer withdraws its start-up crowdfunding offering or does not raise the minimum amount within 90 days after the funding portal posts the offering document online, all the funds must be returned in full to investors within five business days. No deductions are permitted. The funding portal must also send a notice to the issuer and each investor confirming that the funds have been returned to investors.

The funding portal may send notices to investors and issuers by e-mail.

Related-party restriction

A funding portal cannot act in a start-up crowdfunding distribution if one of its principals is also a principal of the issuer group. The issuer group means the issuer, an affiliate of the issuer, and any other issuer that is engaged in a common enterprise with the issuer or an affiliate, or whose business is founded or organized by the same person or company who founded or organized the issuer.

Investor's right to withdraw

Investors have the right to withdraw their investment within 48 hours following the investor's subscription. Investors also have the right to withdraw their investment within

48 hours of the funding portal notifying the investor of an amendment to the offering document.

To exercise this right of withdrawal, an investor must notify the funding portal. The funding portal must give investors the opportunity to exercise this right. The funding portal must return the funds to an investor who exercises this right, without any deduction, within five business days after the notice.

Amendments to the offering document

An issuer must amend its offering document after it has been posted online if the information it contains is no longer true. This could be the case if, for example, an issuer wants to change the price of the securities or the minimum or maximum offering amount. The issuer must send the amended version to the funding portal for posting on the funding portal's website. The funding portal must notify investors about the amendment.

Issuer's financial statements

Under the start-up prospectus exemption, issuers are not required to provide financial statements to investors with the offering document.

If an issuer wants to make its financial statements available to investors, it can place a hyperlink on the funding portal leading to the financial statements. However, the hyperlink must not appear in the offering document because the financial statements do not form part of it.

For more information about the start-up crowdfunding exemptions in the other participating jurisdictions, please refer to the following contact information:

Alberta

Alberta Securities Commission
Telephone: 403-355-4151
E-mail: inquiries@asc.ca
Website: www.albertasecurities.com

Saskatchewan

Financial and Consumer Affairs Authority of Saskatchewan
Securities Division
Telephone: 306-787-5645
E-mail: exemptions@gov.sk.ca
Website: www.fcaa.gov.sk.ca

Manitoba	The Manitoba Securities Commission Toll free in Manitoba: 1-800-655-2548 E-mail: exemptions.msc@gov.mb.ca Website: http://www.mbsecurities.ca/
Ontario	Ontario Securities Commission Toll free: 1-877-785-1555 E-mail: inquiries@osc.gov.on.ca Website: www.osc.ca
Québec	Autorité des marchés financiers Direction du financement des sociétés Toll free in Québec: 1-877-525-0337 E-mail: financement-participatif@lautorite.qc.ca Website: www.lautorite.qc.ca
New Brunswick	Financial and Consumer Services Commission Toll free: 1-866-933-2222 E-mail: emf-md@fcnb.ca Website: www.fcnb.ca
Nova Scotia	Nova Scotia Securities Commission Toll free in Nova Scotia: 1-855-424-2499 E-mail: nssc.crowdfunding@novascotia.ca Website: nssc.novascotia.ca

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