

March 1, 2021

**IN THE MATTER OF
THE SECURITIES LEGISLATION OF ONTARIO
(the Jurisdiction)**

AND

**IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS**

AND

**IN THE MATTER OF
BLOCKFILM INC.
(the Filer)**

DECISION

Background

The Canadian Securities Administrators (the **CSA**) operate a regulatory sandbox to support financial technology businesses seeking to offer innovative products, services, and applications in Canada (the CSA Regulatory Sandbox). The CSA Regulatory Sandbox allows firms to obtain exemptive relief from certain requirements of securities legislation that may be an impediment to their innovative business models, provided that investor protection and market integrity are not compromised.

The Filer wishes to operate a digital platform (the **Platform**) across Canada that will connect companies creating film and film-like projects, including those that make use of emerging forms of media (**Issuers**) with potential investors and fans.

In the context of the CSA Regulatory Sandbox, the Filer submitted its business model and subsequently filed an application to be exempted from certain requirements under applicable securities legislation. This Decision should not be viewed as a precedent for other filers in the Jurisdictions (as defined below).

The principal regulator in the Jurisdiction has received an application from the Filer for a decision under the securities legislation of the Jurisdiction (the **Legislation**) that the Filer be exempt from the dealer registration requirement in the Legislation in connection with the operation of the Platform (as defined below) (the **Requested Relief**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

- (a) the Ontario Securities Commission is the principal regulator for the application; and

- (b) the Filer has provided notice that Section 4.7(1) of Multilateral Instrument 11-102 *Passport System (MI 11-102)* is intended to be relied upon in Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Québec, Saskatchewan and Yukon (together with Ontario, the **Jurisdictions**).

Interpretation

Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer:

The Filer and the Platform

1. The Filer is a company incorporated under the laws of Canada. The issued and outstanding common shares of the Filer are currently owned by a group of individuals who have expertise in the film, content creation and technology industries. Its registered office is located in Toronto.
2. The Filer is not currently registered in any capacity in Canada. The Filer is not in default of securities legislation in the Jurisdictions.
3. The Filer's Platform will be launched across Canada and elsewhere and will enable investors to invest in new film and film-like projects, including those that make use of emerging forms of media.
4. The Platform will be divided into the following three distinct portals:
 - (a) the first portal will be accessible to companies creating film and film-like projects (**Issuers**) that are seeking funding through distributing tokenized securities (**Security Tokens**) and/or that want to provide opportunities to their fan base by issuing reward-based points/tokens (**Fan Tokens**);
 - (b) the second portal will be accessible only to potential investors who first indicate that they are "accredited investors", as that term is defined in National Instrument 45-106 *Prospectus Exemptions* or a similar type of investor under the laws of the jurisdiction of the applicable Issuer (**Accredited Investors**); and
 - (c) the third portal will be available to the general public (**Fans**).
5. Accredited Investors interested in purchasing Security Tokens will be redirected to a website that is co-branded with TokenGX Inc., a registered exempt market dealer that operates a digital funding portal (the **EMD**).

6. The Filer and the Issuers will utilize the EMD's existing technology and infrastructure for the creation and distribution of Security Tokens and the related smart contracts.

First Portal

7. An Issuer that is interested in raising capital for its project and/or is interested in providing donation or reward opportunities to its fan base will reach out to the Filer by accessing this first portal on the Platform. Initially, the Filer will conduct some general vetting services on the creative content of the project submitted by an Issuer. The Filer expects that a greater degree of creative vetting will take place in connection with those projects and Issuers that seek to raise capital through the Platform. This review will include a check for compliance based on industry-accepted codes of conduct, such as the Canadian Broadcast Standards Council code of conduct.
8. Prior to accessing the first portal, each Issuer will be required to agree to the Platform's general usage agreement.
9. An Issuer that wants to raise capital through the Platform and that makes it through the general vetting phase will also be required to enter into an onboarding agreement (the **Issuer Agreement**) with the Filer and the EMD.
10. Under the Issuer Agreement, the Issuer will be required to acknowledge that any information or statements that it posts on the Platform, including on the project board that is part of the Platform, must: comply with applicable securities legislation; be correct, complete, consistent and appropriate; not contain promotional statements or material that cannot reasonably be supported; and not be misleading.. Finally, the Issuer will be required to confirm under the Issuer Agreement that it is responsible for compliance with applicable securities laws. If the Filer determines that an Issuer is in breach of the Issuer Agreement and the Issuer, after being notified of such breach by the Filer, is unable to, or refuses to, take any step necessary to bring itself into compliance, the Filer will remove that Issuer from the Platform.
11. An Issuer, which may be a Canadian or a foreign company, will then be able to select the types of securities (i.e., equity, debt or revenue sharing) that it wants to offer to Accredited Investors. This information will be provided via the Filer to the EMD, and the EMD will cause the appropriate Security Tokens to be created on the public Ethereum blockchain used by the EMD.
12. The Filer will also provide Issuers with the ability to issue Fan Tokens. Fan Tokens can either be earned by Fans by providing certain services to the Issuer (e.g., completing a survey), or purchased. In either case, Fan Tokens will provide the Fans holding them with certain benefits, such as the attending a special preview or event relating to the project, discounts on project-related merchandise, passes to attend a related festival, or the chance to attend an interview with the creative team.
13. It is possible that certain Issuers will decide to only offer Security Tokens on the Platform, and not Fan Tokens, or vice versa.

14. When an Issuer is accepted onto the Platform, its marketing material and information with respect to the project, including a short description of the project, will be uploaded to the Platform. If the Issuer intends to offer Security Tokens, then a term sheet outlining the key terms associated with the Security Tokens, including a description of the Security Tokens being offered, the minimum investment amount and the amount that the Issuer wishes to raise, will also be available on the second portal. The Issuer will have the choice to include additional materials on the second portal, such as its business plan and financial projections. If the Issuer intends to offer Fan Tokens, a description of the types of rewards available to be earned through the redemption of Fan Tokens will be available on the third portal.

Second Portal

15. The Platform will include a second portal to facilitate the provision of information regarding Security Tokens. Before being granted access to this portal, each visitor will be required to agree to the Platform's general usage agreement and acknowledge that: he, she or it is an accredited investor or the equivalent in the jurisdiction where he, she or it is resident; the Filer is not registered as a securities dealer; no securities regulatory authority or regulator has approved or expressed an opinion about the Security Tokens mentioned on the portal; and the Filer is not making any recommendation or providing any advice in respect of any Security Token.
16. All materials, including marketing materials, relating to the business of the Issuer and the offering of the Security Tokens will be reviewed by the EMD before being posted on the Platform. These materials may be consulted by Accredited Investors when independently evaluating and assessing investments in Issuers.
17. The Filer has entered into an agreement with the EMD (the **EMD Agreement**), on its own behalf and on behalf of each Issuer that wants to offer Security Tokens, whereby the EMD agrees to act as the dealer in connection with the offering of Security Tokens by the Issuers to Accredited Investors. The EMD Agreement will provide that the EMD is responsible for confirming the investor's status as an Accredited Investor, and that the EMD will perform all applicable non-creative due diligence, know-your-client, know-your-product and suitability determinations for all the Accredited Investors that invest in, or trade, Security Tokens. Under the EMD Agreement, the parties will acknowledge that the Filer will not be responsible for, will not provide advice in respect of, and will not otherwise guarantee any information provided by, or any trade in Security Tokens effected by, the EMD, and that the Issuers and the Accredited Investors will depend on the EMD in respect of, and the EMD will be responsible for, all purchases or sales of Security Tokens.
18. The Filer may also make available certain general industry information on the second portal. This information could include information on the industry sector generally, which information will be derived from publicly available sources. The Filer may also post original content on the Platform, such as interviews, webinars, and viewing events.
19. If an Accredited Investor is interested in investing in one or more Issuers, that Accredited Investor will be required to click on an "Invest" or similar button on the portal, which will automatically redirect the Accredited Investor to another website or platform that is co-

branded with the EMD. This co-branding exists to provide the Accredited Investor with a seamless experience, but the Filer will not create any of the content on this website or platform, nor will it interact with the Accredited Investor through this website or platform. This website or platform will include prominent disclosure explaining, in plain language, the roles and responsibilities of the Filer, the Issuer and the EMD. The EMD will conduct all required know-your-client, know-your-product, suitability and anti-money laundering requirements in respect of each Accredited Investor.

20. The EMD will then arrange for the completion of a subscription agreement by the Accredited Investor in respect of the Accredited Investor's investment in the applicable Issuer. Each subscription agreement will include an acknowledgement from the Accredited Investor that investing in the Security Tokens has significant risk, that the main objective of the applicable Issuer is not to maximize returns to investors and that there is likely no market for the resale of the Security Tokens. The EMD will also require the Accredited Investor to complete Form 45-106F4 *Risk Acknowledgement*. The subscription agreement will also require the Accredited Investor to acknowledge that the Filer and the EMD are not responsible for any misrepresentation by an Issuer, including for any error, omission or misstatement in the materials on the portal. Under the subscription agreement, each Accredited Investor will represent that he, she or it will notify the Issuer and the EMD promptly of any change to his, her or its status as an accredited investor.
21. Once the EMD has completed its review and a subscription is accepted by an Issuer, the subscription proceeds will be paid in fiat currency by the Accredited Investor to the Issuer through the EMD and the applicable Security Tokens will be deposited by the EMD into the Accredited Investor's wallet on the Ethereum blockchain.
22. The Security Tokens purchased by Accredited Investors through the co-branded platform will be held in the Accredited Investors' digital wallets, which are not controlled by the Filer, the EMD or affiliates of the Filer or the EMD. An Accredited Investor's interest in the Security Tokens is recorded on the Ethereum blockchain. Accredited Investors control the private keys to the public digital wallet address. Neither the Filer nor the EMD act as custodian for any Security Tokens that are assets of the Accredited Investors.
23. All Security Tokens issued will be deployed on the Ethereum blockchain. Security Token transaction data will be immutably recorded on the blockchain, will be visible to the public and can be verified. The Filer or the EMD will review and audit the smart contracts underlying the Security Tokens to ensure that they represent the terms agreed to by the applicable Issuer.
24. The Security Tokens will be digital assets that represent an equity, debt or revenue-sharing arrangement of the applicable Issuer and will be distributed to Accredited Investors pursuant to a prospectus exemption or the equivalent under the laws that apply to the Issuer. Any amount owing by an Issuer to Accredited Investors under the terms of the Security Tokens will be paid by or at the direction of the Issuer.

25. The Filer will retain limited information on its Platform regarding Accredited Investors. This information will include their name, mailing address and the declaration referred to above that they are Accredited Investors.

Third Portal

26. The Platform will also include a third portal, which will be available to all Fans who will be required to agree to the Platform's general usage agreement before he, she or it has access to this portal. Through this portal, Fans will have an opportunity to acquire Fan Tokens. Fans will be able to see limited marketing information provided by each Issuer. However, no information regarding the terms of the Security Token offering, if any, of an Issuer will be available on this third portal.
27. As stated above, Fan Tokens will be generic "reward points" that can be earned by Fans by providing certain services to the Issuer or purchased by Fans through the Platform using fiat currency. Redemptions of Fan Tokens will be made through the Platform. Each Fan Token relating to an Issuer may be purchased, earned or redeemed at the same fixed value. The Filer will maintain a record of the Fan Tokens that have been earned/purchased and redeemed in connection with each Issuer.
28. The Filer may also want to provide Fans with the ability to donate funds in fiat currency to an Issuer. During the early days of the Platform's operation, these donations may not be able to be made through a charitable organization. In this case, donations will be made by Fans to the Issuer through the Platform.
29. Other than the fees referred to below, the Filer will not receive funds from Fans, whether in respect of Fan Tokens or donations.

Project Board

30. The Filer expects that the Platform will host one project board for each Issuer or project. This project board will be a place where the Issuer can post additional information regarding its project and/or update Fans regarding rewards for Fan Tokens. In addition, Accredited Investors and Fans will be able to ask the Issuer questions about the project. This information will be accessible generally to all visitors to the Platform. None of the information on the project board will relate to the Security Tokens offered by the Issuer or to an investment in those Security Tokens.

Costs and Fees

31. To cover part of its costs for operating and maintaining the Platform, including for the vetting process conducted by the Filer in respect of Issuers, the Filer may charge an access fee to Issuers on a per-project basis. In addition, the Filer may offer additional vetting services to Issuers on a paid-for basis. Accredited Investors and Fans will not be charged a fee in order to access the Platform.

32. As compensation for its services in connection with the sale of Security Tokens, the EMD will receive a commission from each Accredited Investor that purchases Security Tokens equal to a percentage of the applicable subscription costs.
33. In connection with the arrangements between the Filer and the EMD, the EMD will pay a fee to the Filer based on the commission received by the EMD from Accredited Investors with respect to the sale of Security Tokens.
34. The Filer may also receive from the Issuers a fee in respect of any Fan Tokens that are made available by Issuers to Fans. In addition, if donations are made by Fans to Issuers through the Platform, the Filer may charge the Issuer a transaction fee.
35. The Filer will provide clear and complete disclosure to all Accredited Investors and Fans of the Filer's and the EMD's fee structure.

Additional Platform Activities

36. Any direct solicitation to, or contact with, an Accredited Investor or a prospective accredited investor will only be made by the Issuers, as the issuers of the securities, and the EMD.
37. In carrying out its activities in connection with the Platform, the Filer will market its Platform to potential investors in a generic manner through social media and other means.
38. The Filer will not refer to itself as a marketplace, exchange, bourse, trading system or any derivation of these terms. In addition, the criteria for an Issuer to be placed on the Platform will not be referred to as "listing standards", the vetting process and acceptance to provide access for an Issuer to the Platform will not be referred to as "listing" the Issuer and the onboarding agreement with the Issuer will not be referred to as a "listing agreement".

All advertising, marketing or related materials (the **Advertising**) of the Filer in respect of the existence of the Platform will comply with applicable securities legislation.

Decision

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

The decision of the principal regulator under the Legislation is that the Requested Relief is granted, provided that:

- (a) The Filer is restricted to facilitating primary distributions of Security Tokens on the Platform in accordance with applicable securities laws;
- (b) In carrying out its activities in connection with the Platform, the Filer shall not:
 - (i) provide specific recommendations to particular Accredited Investors about the suitability of a purchase of an Issuer's Security Tokens;

- (ii) recommend or solicit any particular purchase or sale by an Accredited Investor of an Issuer's Security Tokens;
 - (iii) accept or deliver trading instructions for an Issuer's Security Tokens;
 - (iv) buy or sell Security Tokens as principal or agent, although certain principals of the Filer may have an interest in one or more Issuers, which interest will be clearly stated on the Issuer-related information on the Platform;
 - (v) compensate employees to advise in, make recommendations about, or solicit purchases or sales of, Security Tokens;
 - (vi) act as a portfolio manager or investment fund manager;
 - (vii) participate in the preparation of offering documents or marketing materials in respect of an offering other than by providing assistance to Issuers with respect to the creation of their marketing information and term sheet so that they can be made available to Accredited Investors and Fans on the Platform;
 - (viii) provide specific details about an Issuer's Security Tokens other than by making them available on the Platform;
 - (ix) comment on the merits or expected returns of an investment in an Issuer's Security Tokens;
 - (x) assist with the completion of a subscription agreement by an Accredited Investor;
 - (xi) accept or handle funds for the purchase of an Issuer's Security Tokens or hold assets of Accredited Investors;
 - (xii) clear or settle any trades of an Issuer's Security Tokens;
 - (xiii) invest in any Issuer or underwrite any Issuer; or
 - (xiv) collect know-your-client information;
- (c) The Filer shall not knowingly permit anyone to trade Security Tokens unless the purchase or sale is through a person or company registered in the appropriate dealer category;
 - (d) The Filer shall not operate a marketplace as defined in National Instrument 21-101 *Marketplace Operation*;
 - (e) The Filer will not make available on the Platform any Fan Tokens that may be considered securities and/or derivatives;
 - (f) The Filer shall not facilitate the secondary trading of any Security Tokens;

- (g) The Filer ensures that any Advertising:
 - (i) contains neither misrepresentations nor promotional statements nor material that cannot be reasonably supported;
 - (ii) contains only information that is presented in a fair and balanced manner;
 - (iii) clearly and prominently states that only Accredited Investors may be granted access to the portal offering Security Tokens of the Issuers;
 - (iv) used to find or solicit potential Issuers clearly and prominently states that only Issuers that agree to the general terms of usage of the Platform will be granted access to the Platform; and
 - (v) discloses that investing in the Security Tokens has significant risk, that the main objective of the Issuers is not to maximize returns to investors, and that there is likely no market for the resale of the Security Tokens;
- (h) The Filer discloses to all Accredited Investors in the general usage agreement:
 - (i) all fees;
 - (ii) the roles and responsibilities of the Filer in connection with Issuers and Accredited Investors, and Accredited Investors and the EMD, including clarification as to the roles and responsibilities not performed by the Filer;
 - (iii) any applicable referral arrangement; and
 - (iv) that no securities regulatory authority has approved or expressed an opinion about the Security Tokens offered by Issuers through the Platform;
- (i) The Filer will keep books, records and other documents reasonably necessary for the proper recording of its business, including, but not limited to:
 - (i) complaints made by any Issuer, Accredited Investor or Fan with respect to the Platform, including the Filer's response and any action taken in respect of the complaint;
 - (ii) information relating to any breach of an Issuer Agreement or the general usage agreement that the Filer has actual knowledge of; and
 - (iii) a copy of all information posted by the Filer or Issuers on the Platform, including information and comments posted on project boards; the Filer will retain time-stamped versions of prior offering documents in its database which will be made available on request.
- (j) The Filer notifies the principal regulator in writing of any material changes to the Filer's business activities no later than ten days prior to the change;

- (k) The Filer provides to the principal regulator, within 30 days of the end of each calendar quarter, in a format acceptable to staff, a report that includes:
- (i) the number and names of Issuers on the Platform that have offered or are offering Security Tokens during or as at the end of each calendar quarter;
 - (ii) the aggregate and average amounts raised from Accredited Investors by those Issuers;
 - (iii) the average purchase amounts paid by Accredited Investors;
 - (iv) details of any Issuers that were removed from the Platform by the Filer or the EMD during the calendar quarter due to breaches of the general usage agreement or the Issuer Agreement;
 - (v) details of any fraudulent activity or material cybersecurity breach on the Platform during the calendar quarter, the resulting harm and effects on Accredited Investors, Fans and Issuers, and the corrective measures taken by the Filer, the Issuers and/or the EMD to remediate such activity or incident; and
 - (vi) details of any Accredited Investor or Issuer complaints received by the Filer during the calendar quarter, including action taken by the Filer;
- (l) In addition to any other reporting required by securities legislation, the Filer will provide on a timely basis any report, document or information to the principal regulator that may be requested by the principal regulator from time to time for the purpose of monitoring compliance with securities legislation and the conditions in this Decision, in a format acceptable to the principal regulator;
- (m) This Decision may be amended by the principal regulator from time to time upon prior written notice to the Filer; and
- (n) This Decision shall expire two years after the date of this Decision.

“Timothy Moseley”

Vice-Chair Timothy Moseley
Ontario Securities Commission

“Frances Kordyback”

Commissioner Frances Kordyback
Ontario Securities Commission