

Relationship Disclosure  
Document and Agreements



CAMPBELL LEE & ROSS  
Investment Management Inc.

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## Who we are?

Campbell, Lee & Ross Investment Management Inc. was founded in June 2000, “CLRIM” is an independent Discretionary Investment Manager who offers Investment Counsellor services for high-net-worth individuals.

We are a registered member under the guidance of the Ontario Securities Commission, “OSC”, “IIROC”, and under orders from the Canadian Securities Administrators (Canada’s provincial and territorial securities regulators). CLRIM complies with the regulations governing its activities with the primary objective of these regulations being to protect clients and preserve financial market integrity.

## 1. Our Relationship

You expect your Investment Advisor to be honest, objective and reliable. At the same time, your Investment Advisor wants you to honestly explain your situation, your requirements and your needs.

TRUST IS THE CORNERSTONE OF YOUR BUSINESS RELATIONSHIP

### WHAT WE DO FOR YOU

Your Investment Advisor's first role is to establish your investor profile.

To do so, your Investment Advisor must know you well: your personal, professional and financial situation, your financial objectives, your investment horizon, your risk tolerance, and your investment knowledge.

Your Investment Advisor will then be able to recommend investments that are suitable for you.

## WHAT IS "INVESTMENT SUITABILITY"?

"Investment suitability" is the matching of your investor profile with your investments. At CLRIM, investment suitability is a function of your investment objectives, as determined on your account opening forms, namely your Risk Questionnaire.

Your investment objectives are grouped by type of account: registered and non-registered. (A registered account is an account opened as part of one of the programs provided in the Income Tax Act, such as an RRSP, a TFSA, a LIRA, a RRIF, etc.)

Your investments, whether they are in a registered or non-registered account, fall into four major categories:

- Low-risk income securities
- Moderate-risk income securities
- Moderate- to higher-risk income and growth securities
- Speculative securities and market strategies

These categories are described in greater detail on your account opening form.

Your Investment Advisor performs an investment suitability review on this basis. This review is done at different times, according to the service offering.

## ADVISORY ACCOUNTS (n/a)

The suitability review is done before any investment recommendation and whenever you submit a transaction order.

## DISCRETIONARY MANAGEMENT SERVICE ACCOUNTS

An ongoing suitability review is part of these service offerings. Your portfolio is managed according to a model portfolio's investment policy, or a model chosen at the beginning of your relationship, according to your investor profile. Regardless of the service offering you have chosen, an investment suitability review is also done systematically:

- When a transaction is accepted
- When a recommendation to buy, sell, exchange or hold a particular security is made
- When there is a change of Investment Advisor
- When investments are deposited in or transferred to your account
- When a material change occurs in your situation

Your Investment Advisor also keeps abreast of market moves and closely monitors the securities that he/she recommends or that you hold.

Your Investment Advisor meets high professional standards. He/she must exercise reasonable care, discernment and impartiality and act with loyalty, integrity, honesty and fairness in all dealings with you, which includes disclosing any conflicts of interest.

To practice the profession, your Investment Advisor is licensed by regulatory authorities after a background check and after verification that he/she has the requisite training and education. Your Investment Advisor is subject to ongoing supervision of his/her activities and to a mandatory continuing education program.

Your Investment Advisor must explain CLRIM service offerings to you. The terms and conditions of the service offering you have chosen must be very clear to you. Your Investment Advisor is also required to give you a copy of your account opening form, if you wish to have.

At CLRIM, we offer Discretionary Management Services.

Your Investment Advisor must also be able to clearly explain to you the products that he/she recommends for you. And before you buy or sell securities in an advisory account, he/she must inform you of commissions, fees and charges associated with the transaction, we offer Discretionary Management services.

### *Products available in a discretionary managed account*

- Equities
  - Common shares
  - Preferred shares
- Debt Securities
  - Bonds and debentures
  - Strip bonds
- Mutual Fund Securities
  - Money Market funds
  - Funds held by clients at time of transfer
- Derivatives
  - Puts/Call Options (If denoted on account opening documents)
- Rights/Warrants
- Flow Through shares to assist with tax planning

## What we expect of you

- It is essential that you understand the service offering(s) as well as the type(s) of account(s) you have chosen. This choice is clearly indicated on your account opening form, a copy of which will be given to you by your Investment Advisor. If you have any doubts, clarify them as soon as possible with your Investment Advisor
- It is essential that you ask your Investment Advisor any questions you may have on the products that he/she recommends for you and that you understand their terms and conditions, as well as the risks involved
- We ask that you verify that the information contained on your account opening form is accurate and that you immediately notify your Investment Advisor of any material change in your situation. Don't hesitate to meet with your Investment Advisor to inform him/her of such change. Your Investment Advisor will then update your file accordingly
- We ask you to examine carefully and without delay the content of this brochure, including IIROC's Client Complaint Handling Requirements, as well as the risks specific to certain markets, products or investment strategies. These risks are described in more detail in the "Notices" section of the present brochure
- We ask you to examine carefully and without delay all documents provided on the functioning of your account(s), not only when your account is opened, but also throughout our relationship. For example, we want to be notified immediately of any erroneous transaction notice or portfolio statement
- We ask you to inform your Investment Advisor if you have borrowed money from third parties for investment purposes or if you intend to.
- Do not hesitate to request information on your account proactively, and contact your Investment Advisor if you are not satisfied with the handling of your account(s)

### What is a Material Change?

A material change is a change that affects a client's investment needs, for example, a change in the client's short-, medium-, or long-term personal obligations, or an event that has had a significant impact on the client's financial, professional or personal situation since the last update of the client's file.

Clients must also notify their Investment Advisor of any change in their civil status, a change of address, a change of agent, or a change in their status as an insider or as a significant shareholder of a company whose shares are traded on an exchange or on the over-the-counter market.

# Our Service Offerings

## ADVISORY ACCOUNTS

An “advisory account” is an account where the client is responsible for the investment decisions but can rely on the advice given by an Investment Advisor. The Investment Advisor must meet an appropriate standard of care, make investment recommendations suited to the client’s investor profile, and offer unbiased investment advice.

CLRIM does not offer Advisory services, however, there are circumstances where the Investment Advisors will take direction from a client on specific securities they may want to purchase. These directives are documented as part of our Client Direct Trade Request (“CDTR”) forms and are maintained and signed off by our PM and Compliance team.

Fees for these accounts are outlined in our Management Agreement under Schedule A and are billed monthly in arrears.

## DISCRETIONARY ACCOUNTS

A discretionary portfolio management account designates any account in which the investment decisions are made on an ongoing basis by a duly authorized portfolio manager, who makes and executes investment decisions on your behalf.

A Discretionary Management Service account is an account in which the assets are managed according to models you have chosen with the help of your Investment Advisor. The models are managed by an authorized portfolio manager at the account and Household level.

Fees for these accounts are outlined in our Management Agreement under Schedule A and are billed monthly in arrears.



## Account types offered

- Cash
- Margin
- RRSP
- RRIF
- LIF
- LIRA
- TFSA
- RDSP
- RESP
- SPOUSAL RSP
- SPOUSAL RIF

### TYPE OF ACCOUNTS

- REGISTERED ACCOUNTS (as outlined under Income Tax Act)
- NON-REGISTERED ACCOUNTS
- PROFESSIONAL ACCOUNTS (Holding Companies, Professional servicing accounts, Trusts)
- ESTATES

## Information regarding activities in your accounts

Your Portfolio Statement (Quarterly/Monthly) issued by National Bank Independent Network “NBIN”

- Designed to simplify the management of your finances, your Portfolio Statement is issued at least every quarter as well as each month in which transactions were present.
- Your portfolio statement will provide an overview of your monthly activity with assigned breakdowns.
- A summary of how to navigate your statement can be provided upon request
- Statements can be delivered either in paper form or you may opt for eco friendly and obtain electronic copies via your individual sign in.

### INVESTMENT PERFORMANCE REPORT

NBIN produces, for the period ending December 31 of each year, an Investment Performance report. This report displays information pertaining to, in particular, the change, in dollar value, over the past year and since the accounts inception, and your total personal rate of return on your investments. Your total personal rate of return is equal to the return on your investments over different periods. It is calculated using a method called the “money-weighted rate of return”, which takes into account the effect of deposits and withdrawals in the account and the dates they were made.

The following is compliant with CRM2 requirements.

## Transaction confirmations

Shortly after the purchase or sale of securities, or any option transaction made in your account, a transaction confirmation will be sent to you (if requested).

The transaction confirmation will provide the security's name, the quantity, the unit price, the transaction date, the market's name, the settlement date, the commission, the service charges, the representative's name, the dealer's role in the transaction and, if applicable, a disclosure that the security is a security of a related issuer.

Transaction confirmations can also be obtained by contacting your Investment Advisor or using the eco friendly digital sign in feature offered by NBIN.

FOR ANY TRANSACTION IN YOUR ACCOUNT, YOUR TRANSACTION CONFIRMATION WILL SHOW:

1. Transaction details: the account number, the transaction date, the name and code of the Investment Advisor assigned to the account, as well as the security code, the transaction code, and the code of the exchange where the transaction took place.
2. The market code and transaction code, indicating whether the dealer acted as principal or agent.
3. The transaction: the quantity purchased or sold, a description of the security, special notations, the unit price, the transaction's amount and, if applicable, the commission, interest, and service charge amounts.

## 2. Your Protection

### Protection of your Personal Information

CLRIM, as outlined in its Management Agreement, has adopted a policy of protecting the personal information obtained by our firm on behalf of our clients and to ensure this personal information as collected will be held in confidence and protected to the best of our ability.

#### PURPOSE

In addition to the fact that CLRIM is concerned with respecting the law, it takes all matters related to protection of personal information very seriously and is committed to taking the necessary measures to ensure and preserve the accuracy, confidentiality, security and privacy of its clients' personal information. Adoption of and compliance with a policy on the protection of personal information demonstrates this interest and should result in a greater sense of client confidence in CLRIM.

## RETENTION

CLRIM may, subject to applicable laws, retain in its files a client's personal information as long as required for the above-mentioned purposes, even if an individual ceases to be a client.

## LOST CLIENT INFORMATION

CLRIM will maintain client information for a period of 7 years after the transfer of a client relationship to another Management firm.

## ACCURACY OF INFORMATION

CLRIM will make every reasonable effort to ensure all client personal information on file is accurate and up to date. It is however the responsibility of each client to inform CLRIM promptly of any changes to their personal details or other material changes so we may make the necessary changes to our information profiles.

If a client believes that any personal information is currently incorrect, they may contact any representative of the firm to have this updated. Some of these changes will require the signing of a letter of direction to facilitate.

## CONSENT

Subject to exceptions found in or permitted by applicable laws, CLRIM does not collect, use or pass on personal information on its clients for the purposes set out in the "Collection, Use and Communication" Section, except with each client's prior consent. This consent is given by clients at various times when an investment service is provided, in particular in account opening applications and agreements with CLRIM. If CLRIM collects personal information from a third party or contacts it to verify or complete personal information, it does so, subject to applicable laws, only with the client's prior consent. Except in the above-mentioned cases, each time CLRIM passes on any information in compliance with the Privacy Policy, it keeps in its records, where it is reasonable to do so, the nature of this information, the date on which it was sent, and the identity of the third party to which it was provided. Exceptions to this rule are personal information passed on for current operations, such as sending information to companies acting as proxies for CLRIM, as well as the production of statements and other documents intended for the Canada Revenue Agency, or their United States counterparts, and the updating of data with the authority concerned, or communications with third parties for non-sufficient fund cheques. Subject to legal and contractual obligations, clients may refuse their consent for the collection, use or conveyance of their personal information or may withdraw consent at any time. If clients do not want CLRIM to collect, use or convey their personal information for any purpose whatsoever, they need only contact their Investment Advisor or make a request in writing.

# Handling Complaints

CLRIM has established efficient internal measures for handling client complaints and complies fully with the quality standards set out by the applicable regulations.

Our complaint handling process involves a review of the alleged misconduct where our goal is to determine what occurred and whether an action led to negligence and a potential loss to the client.

Alleged misconduct includes:

Breach of confidentiality, theft, fraud, misappropriation or misuse of funds or securities, forgery, unsuitable investments, false or misleading information or unauthorized trading, other unauthorized financial dealings as well as unapproved activities engaged outside of the Dealer Member.

Filing a complaint with CLRIM:

Complaints may be filed in writing to the following address:  
Compliance Department, 1075 North Service Road W, Suite 200, Oakville, ON L6M 2G2

We recommend that your written complaint include the details of the grievance, all related details and any requested corrective measures.

# Steps following receipt of a complaint

## STEPS FOLLOWING RECEIPT OF A COMPLAINT

- Have independent review of your complaint item
- Acknowledgement of receipt sent to the complainant within 10 business days
- The person responsible for your file proceeds with his/her review and conducts an investigation. His/her contact information is available on the acknowledgement of receipt.
- A detailed response to the complaint is sent by mail as soon as possible and no later than 90 calendar days following receipt of the complaint. The answer includes a summary of the complaint, the results of the investigation, the final decision with an explanation and the other options for you in case you are unsatisfied with the decision.
- The letter also provides you with other options for seeking compensation, namely via using the OBSI or independent legal counsel.
- In the event that the Compliance or Litigation team is not able to provide you with a response within the 90-day period, it will contact you within that timeframe to inform you of the reasons for the delay and the new expected response time.

In such cases, you can file a complaint to the Ombudsman For Banking Services and Investments (OBSI), at:

- 1-888-451-4519
- [ombudsman@osbi.ca](mailto:ombudsman@osbi.ca)
- [www.osbi.ca](http://www.osbi.ca)

IIROC protects investors and supports healthy capital markets. All Canadian investment firms and individual investment advisors dealing in Canada's stock and bond markets must be registered with IIROC. IIROC-regulated companies and their investment advisors must meet high ethical and professional standards. IIROC conducts regular reviews of registered investment firms to make sure they comply with its rules.

IIROC takes action if its rules are broken or if its standards are not met. You can make a complaint to any and/or all of the following:

- Your investment advisor
- IIROC

Account losses are not necessarily an indication that your advisor has engaged in misconduct, as most investments carry a degree of risk, with no guarantee of profitability. When you complain to IIROC, it will review your complaint to determine whether its rules have been broken or not. CLRIM is regulated by IIROC and all investment advisors working for it are duly registered. The website [www.iiroc.ca](http://www.iiroc.ca) provides a list of all the firms regulated by IIROC and a database of the advisors they employ.

If you believe your investment firm or advisor may have acted improperly or unethically, you may take the necessary actions to pursue retribution and potential return of your money.

Please note that there are various options you may pursue however, please ensure that you maintain accurate records of the action in question.

# Steps following receipt of a complaint

If you believe your investment firm or advisor may have broken IIROC's rules or failed to meet its professional standards, IIROC wants to hear from you.

If IIROC's investigation concludes that an investment firm and/or individuals working for the firm have broken its rules, it may take disciplinary action to hold them accountable. This could result in warnings, reprimands, fines, suspensions and/or permanent bans for advisors and firms.

How Can you get your Money Back?

If you've suffered a financial loss because your investment advisor or firm acted improperly, you will likely ask, "How can I get my money back?"

First of all, it's important you act promptly. There are time limits attached to all of the options available to you.

The first step in seeking compensation is to make a written complaint directly to your investment advisor and his/her firm. They must provide you with a substantive response to your claim within 90 days.

## OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS (OBSI)

- OBSI is Canada's free, independent service for resolving investment and banking disputes with participating firms.
- IIROC requires all the investment firms it regulates to take part in the OBSI process.
- Some firms may suggest you use their own internal ombudsman first, but it is your choice whether or not to participate in that process. It is voluntary.

If you've already formally complained to your investment firm and feel your complaint wasn't resolved to your satisfaction, you have **up to 180 days** from the time you receive the firm's written response to submit a complaint to OBSI.

It is important to know that if you choose to use a firm's internal ombudsman, you will have less than 180 days to complain to OBSI as the 180 day time limit begins to apply **after** the firm's written response to you. **You do not need to appeal the firm's decision to the internal ombudsman before going to OBSI.**

OBSI can recommend compensation up to \$350,000 but its decisions are not legally binding. Many firms will compensate the complainant, but some choose not to.

You can contact OBSI at: 1-888-451-4519 [ombudsman@obsi.ca](mailto:ombudsman@obsi.ca) [www.obsi.ca](http://www.obsi.ca)

## ARBITRATION

Arbitration is a process where a qualified arbitrator – chosen in consultation with both you and the investment firm – hears both sides and makes a final, legally binding decision about your complaint.

IIROC requires all the investment firms it regulates to take part in this option if you choose to go to arbitration.

The arbitrator acts as the judge in the proceedings and reviews facts presented by each side of the dispute. Either side can choose to be represented by a lawyer, though this is not required. Arbitrators can award up to \$500,000.

There are costs to using arbitration, often less than the cost of going to court. The arbitration fees themselves are usually divided between the two parties. When you file your case, you can decide whether to give the arbitrator the added power to award legal costs on top of any other award, in which case the unsuccessful party would pay the other party's legal costs

## COURT

A last option is to pursue via court proceedings. It is a good idea to get advice from a lawyer before pursuing legal action, as this can be an expensive option.

There is also a statute of limitations on legal action. This means there are legal time limits, and you could run out of time to pursue some of your claims in court.



### 3. General Account Agreement and Discretionary Account Agreement

General Account Agreement – Outlines legal capacity, residency, politically exposed persons, Regulation concerning communication with beneficial owners, terms and conditions related to all account holders.

Discretionary Account Agreement – Outline's capacity related to CLRIM and its Discretionary Management on behalf of all beneficial account holders

Risk Questionnaire - Agreement between CLRIM and client that outlines account/household risk profile, asset allocation preferences and investment duration.

# General Account Agreement

NOTICE: In this Agreement, “Client” means the client who signed the Discretionary Management Service Account Opening Form.

In consideration for CLRIM, opening one or more discretionary management accounts constitutes management of a Household of accounts where the Client agrees to the following terms and conditions:

## 1. APPLICABILITY

This Agreement shall apply in addition to the provisions of the General Account Agreement and of any other agreement between the Client and CLRIM.

## 2. CONTRACTUAL DOCUMENTS

The document entitled “What You Should Know: Relationship Disclosure Document and Agreements” (hereinafter the “Relationship Disclosure Document”), any Account Opening Forms, the General Account Agreement and any other agreement between the Client and CLRIM regarding the Account represent the terms and conditions of the contractual relationship between the Client and CLRIM.

## 3. LEGAL CAPACITY

The Client is of legal age and can legally be bound by this Agreement. CLRIM shall provide the Client with an account number that must be used each time a transaction order is given by the Client or made by CLRIM on behalf of that client.

## 4. DECLARATION OF RESIDENCE

- According to Parts XVIII and XIX of the *Income Tax Act* of Canada, financial institutions must collect residence information for tax purposes in order to determine if a financial account should be reported to the Canada Revenue Agency (CRA). The CRA may disclose this information to the government of a foreign country if a person has a residence there for tax purposes, or to the U.S. government if the person is a U.S. citizen.
- CLRIM treats the personal information collected from the Client in a confidential manner. This information is collected and used strictly for the purposes of the *Income Tax Act* of Canada.
- The Client understands that CLRIM, as a financial institution, is required to report to the CRA the necessary information concerning a person who is a resident of a country other than Canada for tax purposes or a citizen of the United States. The CRA may impose a penalty on a person who does not provide this information.

# General Account Agreement

## Citizen or resident of the United States

According to U.S. law, a citizen or resident of the United States for tax purposes is considered to be:

- Any citizen of the United States (including a U.S.- born person residing in Canada or another country who has not renounced his or her U.S. citizenship)
- Any U.S.-authorized resident (including a U.S. Green Card Holder)
- Any permanent resident of the United States

## Tax Residence

In general, a person is a resident of a country for tax purposes if, under the laws of that country, they pay or are required to pay taxes because they are domiciled or resident therein, or meet similar criteria. Individuals who are residents of more than one country for tax purposes may rely on the decisive rules that the tax treaties provide for (when applicable) to resolve the issue of dual residency for tax purposes.

For more information on residency for tax purposes, the Client should consult his or her tax advisor.

## INSIDER

A company that has made a public offering by distributing its securities to the public is defined as a "reporting issuer". Canadian securities laws require, without exceptions, that insiders of a reporting issuer report transactions done in respect of any securities issued by said reporting issuer. Canadian securities laws prohibit transactions initiated by an insider when in possession of confidential information concerning the reporting issuer. Under *National Instrument 55-104 Insider Reporting Requirements and Exemptions*, a reporting insider is defined as being;

- The CEO, CFO, COO and the directors of the reporting issuer, of a major subsidiary of the reporting issuer, of a significant shareholder of the reporting issuer or of any post-conversion significant shareholder
- A person or company responsible for a principal business unit, division or function of the reporting issuer or of a major subsidiary
- A significant shareholder or a post-conversion significant shareholder
- A management company that provides significant management or administrative services to the reporting issuer or a major subsidiary of the reporting issuer, every director of the management company, every CEO, CFO and COO of the management company, and every significant shareholder of the management company
- An individual who performs functions similar to those described above
- The reporting issuer itself, if it has purchased, redeemed or otherwise acquired a security of its own issue, for so long as it continues to hold that security and
- Any other insider who:
  - in the ordinary course receives or has access to information as to material facts or material changes concerning the reporting issuer before the material facts or material changes are generally disclosed; and
  - directly or indirectly exercises, or has the ability to exercise, significant power or influence over the business, operations, capital or development of the reporting issuer.

# General Account Agreement

## POLITICALLY EXPOSED PERSON (PEP) AND HEAD OF AN INTERNATIONAL ORGANIZATION (HIO)

These are persons who have been assigned important functions that usually involve the ability to influence decisions and the ability to direct resources. They are distinguished by the influence and control they can exert on political decisions, institutions or rules determining the allocation of financial or other resources.

**IMPORTANT:** If a Client's family member is a PEP or HIO, or if the Client is closely associated with a PEP or HIO, he or she will be treated as such (ex: if the Client's father is a HIO, the Client will be considered a HIO himself/herself).

**FAMILY MEMBER:** Some family members of a PEP and HIO must also be considered as PEPs or HIOs. Family members of the person concerned are the following: spouse or common-law partner/child/spouse's parent/mother or father/child of the mother or father of an affected person (brother or sister).

**CLOSELY ASSOCIATED PERSON:** A person who has close ties to a PEP or HIO for personal or professional reasons. The association does not have to be known to the public. Here are some examples of people closely associated with a PEP or HIO:

A business partner of a PEP or HIO, or a person who holds, directly or indirectly, a business jointly with a PEP or HIO

A person engaged in a romantic relationship with a PEP or HIO (partner or lover)

A person engaged in financial transactions with a PEP or HIO

An important member of the same political party or trade union as a PEP or HIO

A person on the same board of directors as a PEP or HIO

A person participating in charities in close connection with a PEP or HIO

Politically exposed persons can be divided into either Politically Exposed Foreign Persons (FPEP) or they can be a Politically Exposed Domestic Person (DPEP).

An FPEP is a person who holds or held a position on behalf of a foreign state;

- Head of state or head of government
- Member of the executive council of government or member of a legislature
- Deputy minister or equivalent rank
- Ambassador or attaché or counsellor of an ambassador
- Military officer with a rank of general or higher
- Officer of a state-owned company or state-owned bank
- Head of a government agency
- Judge on a supreme court, constitutional court or other final appellate court
- Leader or president of a political party represented in a legislature

# General Account Agreement

A DPEP is a person who holds (or has held in the past five years) one of the following positions within or on behalf of the Canadian federal government, a Canadian provincial government or a Canadian municipal government:

- Governor General, Lieutenant Governor or Head of Government
- Member of the Senate or House of Commons or a member of a Legislative Assembly
- Deputy Minister or equivalent office holder;
- ambassador or attaché or counsellor of an ambassador
- Military officer with a rank of general or higher
- Officer of a corporation wholly owned by Her Majesty in right of Canada or a province
- Head of a government agency
- Judge on a provincial court of appeal, the Federal Court of Appeal or the Supreme Court of Canada
- Leader or president of a political party represented in a legislature
- Mayor (leader of a city, village, rural municipality or urban agglomeration)

## Head of an International Organization (HIO)

A person who performs one of the following duties:

- Head of an international organization set up by governments of different States
- Head of an institution established by an international organization

A HIO is the main person who directs the organization, such as its president or chief executive officer. The activities of an institution established by an international organization do not necessarily have an international scope and may be limited to a country or territory.

Once a person is no longer the head of an international organization or the head of an institution established by an international organization, that person is no longer a HIO.

**INTERNATIONAL ORGANIZATION (IO):** is an organization created by the governments of more than one state. The circumstances surrounding the establishment of the organization are therefore crucial in determining whether its leader is a HIO or not.

## SIGNIFICANT SHAREHOLDER

Under IIROC's Universal Market Integrity Rules (UMIR), a Significant Shareholder is a person (including a corporation or incorporated organization) holding separately, or in combination with other persons, more than 20% of the outstanding voting securities of an issuer.

# Regulation concerning communication with Beneficial owners

## PART 1 — COMMUNICATION OF INFORMATION REGARDING BENEFICIAL OWNERSHIP

Securities laws allow a reporting issuer, as well as other persons and corporations, to send documents related to the reporting issuer's internal affairs directly to beneficial owners of its securities if these owners do not oppose having personal details, meaning their name, postal address, e-mail address, securities held and preferred language (hereinafter designated as "Personal Details") communicated to the reporting issuer or to other persons or corporations.

## PART 2 — RECEIVING DOCUMENTS FOR HOLDERS OF SECURITIES

For any security you hold in any of your accounts, you have the right to receive proxy-related materials sent by a reporting issuer to registered holders of its securities in preparation for meetings. Under normal circumstances, all proxy related material will be sent to CLRIM on behalf of all client account holdings and we, CLRIM, will complete and remit the proxy information electronically on behalf of those holdings. The proxy details will in most cases be completed based on the recommendation of the Board as outlined in the proxy material.

## PART 3 — CONSENT FOR ELECTRONIC TRANSMISSION OF DOCUMENTS

If you consent to receive documents by email, you confirm that:

- You have read and understood the terms of this consent;
- You have a computer and an Internet connection meeting the minimum requirements;
- CLRIM is not responsible for any miscommunication that may be due, in whole or in part, to limitations or restrictions on your electronic equipment or by your service provider or to damage or malfunctions of your equipment or those of your service provider;
- You acknowledge that CLRIM will send you notices or documents within the stipulated time at the e-mail address you have provided and that you are responsible for checking your e-mail on a regular basis in order to consult such documents in a timely manner;

- You are responsible for advising CLRIM in a timely manner of any change of your e-mail address;
- CLRIM will have no obligation to send you a hard copy of the documents
- You acknowledge that you are not required to consent to e-mail transmission of documents and that, if you do so consent, you may, at any time, revoke such consent by sending a written notice to CLRIM;
- You acknowledge that, notwithstanding your consent to the e-mail transmission of documents, in certain circumstances, CLRIM may be required to send you hard copies of documents.
- In some cases, CLRIM will send documents to your email address to assist with facilitating the flow of information a client may need for tax preparation, Estate planning, trade direction, or other.

## Questions

If you have any questions or if you wish to change your instructions, please contact your Investment Advisor.

# Terms and Conditions applicable to all Accounts

In consideration for CLRIM agreeing to act, subject to the terms and conditions of this Agreement, as an agent for the Client, the Client agrees to the following:

## 4. INSIDER AND/OR SIGNIFICANT SHAREHOLDER

When CLRIM undertakes a transaction on behalf of the Client, CLRIM assumes, in the absence of express mention to the contrary by the Client, that the Client is not, directly or indirectly, an Insider and/or a Significant Shareholder of a reporting issuer. If the Client, directly or indirectly, becomes an Insider, the Client must expressly inform CLRIM before completing any transaction in the Account.

## 5. WRITTEN NOTICE OF CHANGES OR MODIFICATIONS

The Client hereby agrees to notify CLRIM immediately in writing of any change in his/her investment objectives, financial situation, risk factors, or any other information concerning his/her personal, professional, financial or family situation.

## 6. RULES GOVERNING SECURITIES TRANSACTIONS

All securities transactions shall be subject to the constituting documents, by-laws, regulations, orders, customs and practices of the exchange or market (and, if applicable, of the clearing house), where they are executed and of the applicable self-regulatory organizations. Transactions that are not executed on an exchange or market are subject to the broker's practices for such type of transactions, including settlement procedures. These transactions shall also be subject to all applicable provincial laws and regulations and to all policies and decisions of all applicable regulatory authorities. The Client further acknowledges that the provisions of the documents referred to in this section constitute a minimum standards in the brokerage industry and that CLRIM may, at its sole discretion, apply more restrictive standards.

## 7. INSTRUCTIONS

As part of the General Agreement and signed Discretionary Management Agreement, CLRIM is duly authorized to act in good faith on behalf of the said client. Any client directed trade request beyond the normal scope of CLRIM trading models, will be facilitated by CLRIM on behalf of the client, however, it is the client who assumes the responsibility of the market impact of that request.

## 8. REGISTRATION AND SAFE KEEPING SECURITIES

The normal safekeeping of client assets is under Custody with NBIN (National Bank Independent Network) and their affiliates. Record keeping of assets are listed under the name of client and trading is facilitated via the use of the NBIN client account.

In certain circumstances, a physical certificate may be held by a client of which we may be asked to deposit to a client's account. For this to occur, there are a number of steps required to facilitate such a request and the client will be notified at that time.

CLRIM will at no time hold any client securities under its name.

## 9. CONFIRMATION RECEIPTS AND ACCOUNT STATEMENT

Client account statements are prepared and issued by NBIN on behalf of our clients. These are mailed monthly or quarterly, depending on activity, and mailed to clients who opt for paper copies or maintained on NBIN portal whereby a client will have on-line access to retrieve the said document along with another other documents, including trade confirmations and tax receipts. For on-line access, the client or CLRIM can facilitate setup with NBIN.

## 10. TRANSACTION SETTLEMENTS

All trading activity on a client account will be initiated by CLRIM as Discretionary Manager and settled in accordance with settlement guidelines. Normal trade settlements occur T+2 but can vary depending on trade circumstances or stock indices where settlement is occurring. The settlement of all trades will be conducted via the CLRIM trade accounts and the client account in question, with payment of all trades being charged to the client account directly.

## 11. COMMISSIONS, TRADING FEES AND MANAGEMENT FEES

The Client will pay all administration, commission or other trading fees directly to NBIN as Custodian and Record Keeper of their account assets as charged by NBIN. The client will pay all management fees as agreed at the time of opening the Account via the Account opening documents to CLRIM. Management and other related fees are normally charged in account currency but may from time to time, be re-allocated, if required, to a client account of differing currency.

# Terms and Conditions applicable to all Accounts

## 12. LIABILITY AND OTHER CIRCUMSTANCES

CLRIM shall not be liable with respect to any losses that the Client may incur in his/her Account and/or resulting from his/her securities transactions or with respect to any delay in the receipt or execution of any orders of transactions or to transfer securities or balances from an account of the Client to a third party, for any reason whatsoever, except in the case of intentional fault or gross negligence on the part of CLRIM. CLRIM has no obligation and no liability with respect to the exercise of any rights to vote, to subscribe or to convert or any other rights attached to the securities held in the Account of the Client or with respect to the exercise of an option or warrant. It is policy for CLRIM to consult with any client on whether or not they wish to pursue a rights offer or warrant exercise on behalf of such holding within their account.

CLRIM shall also not be liable for any losses resulting from restrictions made by a public authority, or by a decision of an exchange or a market, from a suspension of transactions, from abnormal or unusual activities in the markets, from war, strike or any other independent circumstances or any acts of God.

## 13. ERRORS OR OMISSIONS

CLRIM shall not be liable for errors or omissions affecting an order or its execution related to the purchase, sale, execution or expiry of any security or any connected matter, unless the error or omission was caused by gross negligence or bad faith on the part of CLRIM.

## 14. SECURITIES PROFESSIONAL

Any person who is an employee, officer or director of CLRIM, and any person working in any capacity in the securities industry, as well as any such person's spouse or relative living under the same roof, is considered a professional for the purposes thereof.

## 15. AMENDMENTS

CLRIM reserves the right to amend the provisions of this Agreement by providing the client with 30 days notice in writing.

## 16. TERMINATION

Subject to the terms of the specific Account Agreements, the client may terminate this Agreement by providing a written notice and shall take immediate effect. All final fees will be calculated and charged at that time.

## 17. DEATH

In the event of the death of the Client, CLRIM shall continue to manage the Household Account as detailed in their "Investment Policy" section of the Discretionary Management Service Account Opening Form until the Client's legal representative or successor has authority to provide new instructions. During this period, no withdrawal or transfer out can be made and will be overseen by NBIN as Custodian on the Account. CLRIM shall not be responsible for any loss or damage arising directly or indirectly from the application of this section.



# Discretionary Management Service Agreement

NOTICE: In this Agreement, “Client” means the client who signed the Discretionary Management Service Account Opening Form.

In consideration for CLRIM, opening one or more discretionary management accounts constitutes management of a Household of accounts where the Client agrees to the following terms and conditions:

## 1. APPLICABILITY

This Agreement shall apply in addition to the provisions of the General Account Agreement and of any other agreement between the Client and CLRIM.

## 2. DISCRETIONARY POWER

By signing the Management Agreement and completing the required KYC documentation (Risk Questionnaire), the Client agrees to provide CLRIM the discretionary authority to conduct trading on their behalf in accordance with their assigned risk tolerance, asset allocation and length of investment. CLRIM will assign a model to each Household of accounts and will maintain that model until which time the client directs a change or signs off on an updated risk Questionnaire.

## 3. MODEL PORTFOLIOS

The Client agrees to the use of model portfolios developed by CLRIM on the condition that only CLRIM shall have the discretionary authority to make a transaction for the purchase or sale of securities in respect of the Household of accounts.

## 4. CONFIDENTIAL INFORMATION

The Client represents and warrants that he/she is not an insider of any company, that he/she does not hold a controlling interest in any company and that he/she is not under any trading restriction with regard to the securities of any company except those mentioned in the “Personal Information” section of the Discretionary Management Service Account Opening Form. Moreover, the Client agrees to notify CLRIM immediately in writing of any change concerning the information provided in “Personal Information” section of the Discretionary Management Service Account Opening Form.

# Discretionary Management Service Agreement

## 5. BROKER

The Client agrees that CLRIM may execute as a broker or cause to be executed by any other broker of its choice any or all transactions in his/ her Household Account.

## 6. ALLOCATION

The Client understands and agrees that certain transactions may be made for his/her Household Account only, or as part of overall transactions made both for the Client and for other CLRIM clients. In the latter case, CLRIM agrees to ensure that the allocation is made in a fair and equitable manner for each of its clients, taking into account their respective Investment Policies and the funds available for the settlement of the proposed transaction. Subject to the foregoing, the allocation shall be made between the different clients concerned on a proportional basis.

## 7. VOTING RIGHTS AND OTHER SHAREHOLDERS' RIGHTS

CLRIM may, in its sole discretion, exercise all the rights attached to the securities held in the Household Account, including but not limited to the right to vote or abstain from voting at shareholders' or security holders' meetings with respect to the shares or other securities held in the Household Account, to buy, sell or exercise all rights or warrants, to exercise or abstain from exercising any conversion privilege attached to any security or any other right normally attributed to security holders, to give or abstain from giving its consent or participate or abstain from participating in any reorganization, restructuring of capital, amalgamation or similar transaction with respect to an entity whose shares or other securities are included in the Household Account. This provision applies notwithstanding receipt of or access to documents related to the annual and special meetings of shareholders of an issuer by the Client. The execution of a warrant offer will normally accompany written or verbal confirmation from the client.

## 8. DOCUMENTS FOR HOLDERS OF SECURITIES

The Client acknowledges that he/she will not receive the prospectuses, information circulars, annual reports or any other documents related to the annual and special meetings of shareholders of an issuer whose securities have been purchased and included in the Household Account, subject to exceptions where these may be obligated under securities law.

# Discretionary Management Service Agreement

## 9. RENUNCIATION TO CONFIRMATION SLIPS

The Client hereby renounces to his/her right to receive a trade confirmation slip for each transaction made in their Household Account. The Client understands that said renunciation is revocable upon receipt of written notice from the client to this effect. Trade confirmations are also attainable via the NBIN on-line portal or via request to your Portfolio Manager.

## 10. MANAGEMENT FEES

The Client agrees to pay the management fees provided in the "Management Agreement" subsection Schedule A. Management fees are calculated and payable on a monthly basis, charged directly to the clients account in arrears. Fees will be calculated on a pro-rata basis within a Household Account and charged based on a  $\frac{1}{365}$  (366 leap year) \* # days calculation.

Fee schedules are outlined in the Management Agreement under Schedule A for each Client relationship.

## 11. ADMINISTRATION FEES

The Client acknowledges that, notwithstanding the provisions of this Agreement taking effect, administration fees normally payable in connection with managed accounts shall continue to apply to their Household Account, based on fees enforced by our Custodian, NBIN.

## 12. TAXES

The Client agrees to pay to CLRIM, in addition to the other amounts payable under this Agreement, the Goods and Services Tax and any applicable provincial sales tax.

## 13. LIMITATION OF LIABILITY

Except in the case of gross or intentional negligence, the Client acknowledges and agrees that CLRIM shall not be liable for any error of judgment, or for any loss incurred by the Client, or for any loss of profit incurred by the Client in the Household Account. The Client acknowledges and agrees that the return on their Household Account depends on market fluctuations and that CLRIM does not in any way guarantee the return on, nor that any loss will occur in, this account.

# Discretionary Management Service Agreement

## 14. REASONABLE DELAY

At the time of opening the Client Household Account, and when portfolio changes or rebalancing are necessary thereafter, the Client understands and agrees that CLRIM may require a reasonable period of time to execute the transactions necessary to reflect or implement the revised Investment Mandate as outlined in their Risk Questionnaire.

## 15. MINIMUM DEPOSIT OR WITHDRAWAL

CLRIM as a firm maintains a minimum Household amount of \$500,000 at the time of on-boarding. This amount will be expected to grow beyond the minimum except in circumstances where a client may be required to withdraw funds as outlined by federal or provincial guidelines and thus bring their balance below our minimum threshold.

There is no minimum withdrawal amount assigned by CLRIM.

## 17. TERMINATION

The Client may terminate this Agreement by providing CLRIM with a written notice by post mail, email or voice mail of their intent. Such termination shall take effect immediately upon receipt of said notice by CLRIM and applicable fees will be charged to the Household Account based on this termination date.

CLRIM may also terminate this Agreement by sending a written notice to the Client at his/ her address as shown within our files and such termination shall take effect within 30 days following the date on which the written notice is mailed to the Client. The termination of this Agreement shall have no effect on the obligations of the parties in respect of any transaction initiated before such termination takes effect or in the assistance thereafter.

CLRIM will expect to receive a 'transfer out' notification from the new Manager acting on behalf of the Client outlining the type of transfer to be initiated, (eg. in cash or in kind).

# Discretionary Management Service Agreement

## 18. RESTRICTIONS

CLRIM will maintain its Fiduciary responsibility when managing the said Client Household Account and will refrain from the purchase of any securities that may at any time be deemed a potential Conflict of Interest to the Portfolio Manager managing the said Client Account.

## 19. DEATH

In the event of the death of the Client, CLRIM shall continue to manage the Household Account as detailed in their "Investment Policy" section of the Discretionary Management Service Account Opening Form until the Client's legal representative or successor has authority to provide new instructions. During this period, no withdrawal or transfer out can be made and will be overseen by NBIN as Custodian on the Account. CLRIM shall not be responsible for any loss or damage arising directly or indirectly from the application of this section.

## 20. INCAPACITY

In the event of the incapacity of the Client, as homologated by a competent court, CLRIM shall continue to manage the Household Account as specified in the "Investment Policy" section of the Discretionary Management Service Account Opening Form until the Client's legal representative or authorized mandatary under the Client's protection mandate, is authorized to provide new instructions. During this period, no withdrawal or transfer out can be made. CLRIM shall not be responsible for any loss or damage arising directly or indirectly from the application of this section.

# Risk Questionnaire

The CLRIM Risk Questionnaire is an agreement between the client and CLRIM that outlines the client's expectations on how their asset portfolio is to be managed.

The Risk Questionnaire is one of several account on-boarding documents that directs CLRIM on how to allocate a client's portfolio based on their risk profile, duration and asset allocation.

The Risk Questionnaire will outline the type of modelling to be used for the client Household of accounts, expected duration, risk percentage allocation and a list of personal information as required under regulatory guidelines.

The CLRIM Risk Questionnaire breaks down investment expectations into 5 investment models;

- AN INCOME FOCUSED PORTFOLIO (100% Fixed Income or 10/90 or 20/80 EQ/FI)*
- A FIXED INCOME FOCUSED BALANCED PORTFOLIO WITH SOME GROWTH (30/70 or 40/60 EQ/FI)*
- A 50/50 BALANCED PORTFOLIO (50/50 – Equity EQ/Fixed Income FI)*
- AN EQUITY FOCUSED BALANCED PORTFOLIO WITH SOME INCOME (60/40 or 70/30 EQ/FI)*
- A LONG-TERM GROWTH EQUITY FOCUSED PORTFOLIO (100% Equity or 90/10 or 80/20 EQ/FI)*

The Risk Questionnaire document is one of many under the KYC requirements that CLRIM requests from a client at the time of on-boarding.

All documents are maintained on site and in digital form and are available to a client at any time upon their request.

## 4. Statement of Principles of Conflicts of Interest

CLRIM is a discretionary Portfolio Manager registered in the provinces of Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia and Ontario. It is important to CLRIM that its clients be informed of existing or potential conflicts of interest that could arise in the course of its activities. A conflict of interest arises when the interests of different persons, eg. those of a client and those of CLRIM or one of its representatives (directors, officers, partners, employees, agents) are incompatible or divergent. CLRIM takes reasonable measures to identify any material conflicts of interest that may exist or that it can reasonably expect to arise.

It assesses the level of risk associated with each conflict or potential conflict and will avoid any circumstance that may evolve into a serious conflict of interest or that may present too great a risk for its clients and any situation that may materially compromise market integrity. In any other conflict of interest situation, CLRIM ensures that appropriate measures are put in place to effectively control the conflict. The activities of CLRIM and its representatives are governed by a Code of Professional Conduct and by a Compliance Handbook.

CLRIM ensures that fair and reasonable policies exist and are implemented for the management of conflicts of interest specific to portfolio management activities, such as fair allocation of securities, soft-dollar payments, proxy voting, compensation and expense allocation practices, error correction, confidentiality of information, trade allocation and best execution. CLRIM representatives may, in the normal course of their duties, find themselves in situations where their personal interests' conflict with those of one or more clients of CLRIM. Under the Code of Professional Conduct and the Compliance Handbook of CLRIM, the interests of clients take precedence over those of CLRIM and its representatives as a matter of basic principle.

# Conflicts of Interest – Code of Conduct

The Code of Professional Conduct and the Compliance Handbook of CLRIM set forth standards that guide the conduct of its representatives. These standards prohibit them from:

- Using confidential information acquired in the course of or in connection with their duties, or exploiting a situation, for the purpose of obtaining an advantage of any kind
- Accepting or giving gifts, entertainment and compensation that could influence decisions to be taken in the course of performing their duties
- Engaging in outside activities that could interfere or conflict with their duties at CLRIM
- Entering into financial transactions on a personal basis with clients of CLRIM
- Giving trade orders which, they know will conflict with the interests of client(s)
- Engaging in any activity or holding an interest in any business or participating in any partnership that may hinder or appear to hinder their independence of judgment in the best interest of clients of CLRIM.

CLRIM representatives must disclose to the clients concerned any conflict of interest and any personal interest in a security or other investment that can be expected to affect their capacity to advise them objectively and impartially. CLRIM representatives must disclose to their employer any situation that can be reasonably expected to hinder them in the performance of their duties or in their capacity to give objective and impartial advice. CLRIM ensures that its employee compensation practices are not inconsistent with its obligations to its clients.



# Referral Arrangements

In the course of its activities, CLRIM has entered into several fee-sharing agreements with sub advisory agents or business partners.

The only active referral arrangement has been in place since 2004. The following agreement is expected to cease operation as of July 2023 or sooner should the noted client(s) transfer voluntarily.

Fees on the noted client Household accounts are billed based on our signed Management Agreement Schedule A with referral-based payments being paid by CLRIM to said referred agent from these fees with no additional amounts being charged to the client.

As of 2021, there are no other referral arrangements being applied by CLRIM, however, CLRIM does reserve the right to use a referral arrangement should it be conducive to increasing our overall assets under management without adversely affecting the client in this capacity.

Any future referral arrangements will follow similar scrutiny on how it impacts our clients vs. benefits to the firm.

Section 13.7 of NI 31-103

(a) “referral arrangement” means any arrangement in which a registrant agrees to provide or receive a referral fee to or from another person or company;; and

(b) “referral fee” means any benefit provided for the referral of a client to or from a registrant..

## 5. Notices

How are your trade instructions executed on the market?

What are the conditions that apply to strip bonds? How are they traded and taxed?

What are the risks related to options and futures trading?

Investing in Flow Through Shares and any tax implications?

What are the risks associated with using borrowed money to invest?

These are the types of topics covered in this section.

# Financial Markets

Over the last few years, new exchanges have been established in Canada. With the availability of multiple marketplaces, new circumstances come into play in the trade order execution process, which is no longer limited to the Toronto Exchange exclusively. CLRIM will engage from time to time using various global exchanges which will encompass varying time zone settlements, thus impacting the settlement of particular trades.

If you have any questions, please contact your Portfolio Manager.

## HOURS OF OPERATION FOR TRADING IN LISTED CANADIAN SECURITIES

- CLRIM's trading staff is available for order execution between the hours of 9:30 a.m. and 4:00 p.m., Eastern Time ("ET"), Monday through Friday, not including statutory Canadian holidays. Staff may be further available before and after these hours; however, CLRIM cannot guarantee any order taking and/or trade execution outside of the hours noted above.
- Please be advised that unless otherwise stated, or unless otherwise agreed to between the Investment Advisor and the client:
- An order received prior to 9:30 a.m. E T will route into the opening sequence of the marketplace for execution on the opening;
- An order received after 4:00 p.m. ET can be entered to the after-hours trading of markets where this feature is available, if the trade characteristics allow. If received after "extended hours" trading becomes unavailable, the order will route the next business day to the pre-opening of the marketplaces.

## PRINCIPAL MARKETPLACE

- For those securities listed on the Toronto Stock Exchange ("TSX") and trading on other alternative marketplaces, the principal marketplace will be the TSX, unless otherwise notified by CLRIM.

## "BEST MARKET"

- The "Best market" is defined as the market with the best bid (buy price) or ask (sell price) and/or best historical liquidity and where CLRIM feels the order has the highest probability of being executed.

# Financial Markets

## TRADE CHARACTERISTICS

### DAY ORDER

- A Day Order is an order that is only valid during the market opening hours on and for the day it is entered. A Day Order received after the opening of the principal marketplace will be entered into the “best market” at the time of entry. From there, the order will trade on any marketplace CLRIM has access to and/or can access for the purpose of best execution. The order will expire, if not filled in full, on the market where the last portion of the order remains live and will expire at 4:00 p.m. ET, or at the time after-hours market activities cease on that market.

### SPECIAL TERMS ORDER

- A Special Term Order is an order with specific terms that is not executable in the regular marketplace. A Special Term Order will only post to the Special Terms Market of the principal marketplace, currently the TSX, unless it is immediately executable on an alternative marketplace at the time of entry, and they will only be live between 9:30 a.m. and 4:00 p.m. ET.

### GOOD-TIL-CANCELLED ORDER

- A Good-Til-Cancelled Order is an order that the client wants to remain open until a specified date of expiry. Such order will be sent to a marketplace determined by CLRIM established routing map. The order will remain in the principal marketplace until executed or expired, whichever comes first. It is the client’s responsibility to ensure he/she knows what the date of expiry will be and to contact his/ her Investment Advisor on the expiry date should he/ she wish the order to be re-instated.

### MARKET ORDER

- An order is considered a “Market Order” when the client has instructed a dealer to buy or sell at whatever prices are available in the marketplace to help ensure a complete and full fill. A Market Order requires immediate completion. An order received after the opening of the principal marketplace will be entered into the “best market” at the time of entry. In an effort to avoid unusual market impacts, all market orders will be converted to limit orders with a reasonably aggressive price before being sent to a marketplace. This measure ensures that market orders still receive a full and immediate fill, except in cases where there is unusual liquidity rates or erroneous order parameters which would result in significant market impacts and a likelihood of breaching market liquidity thresholds. From there, the order will trade on any marketplace CLRIM has access to and/or can access for the purpose of best execution. The order will expire, if not filled in full, on the market where the unexecuted portion of the order remains live until that marketplace closes.

### LIMIT ORDER

- A Limit Order has a specific minimum sale price or maximum purchase price provided by the client. On or after 9:30 a.m. ET, if a limit order is not immediately executable on any marketplace, the order will be sent to a marketplace determined by CLRIM established routing map. The order will expire, if not filled in full, on the market where the last portion of the order remains live until that marketplace closes.

# Strip Bonds vs. Conventional Bonds

This information statement relates to strip securities that are based on bonds of the Government of Canada, a Canadian province, or certain foreign governments or political subdivisions thereof. Provincial securities regulations create an exemption from dealer registration and prospectus requirements for these types of securities.

## STRIP BONDS

- A strip bond – commonly referred to as a “strip” – is a fixed-income product that is sold at a discount to face value and matures at par. This means the holder is entitled to receive the full-face value at maturity. Strips do not pay interest, but rather, the yield at the time of purchase is compounded semi-annually and paid at maturity. Since the return on a strip is fixed at the time of purchase, strips may be a suitable investment where the holder requires a fixed amount of funds at a specific future date.
  - A strip is created when a conventional debt instrument, such as a government or corporate bond, discount note or asset-backed security (i.e., the “underlying bond”), is separated into its “interest” and “principal” component parts for resale. Components are fungible and may be pooled together where they share the same issuer, payment date and currency and have no other distinguishing features. The two types of components may be referred to as follows:
    - The “coupon”: the interest-paying portion of the bond and
    - The “residual”: the principal portion
- Strips are sold at a discount to face value and mature at par, similar to T-bills. Unlike conventional interest-bearing debt securities, strips do not pay interest throughout the term to maturity; rather, the holder is entitled to receive a fixed amount at maturity. The yield or interest earned is the difference between the discounted purchase price and the maturity value; thus, for a given par value, the purchase price for a strip will typically be lower the longer the term to maturity
  - A strip with a longer term to maturity will generally be subject to greater price fluctuations than a strip of the same issuer and yield, but with a shorter term to maturity
  - Strips typically offer higher yields over T-Bills, GICs and conventional bonds of the same issuer, term and credit rating
  - The higher yield offered by strips reflects their greater price volatility. Like conventional bonds, the price of a strip is inversely related to its yield. Thus, when prevailing interest rates rise, strip prices fall, and vice versa. However, the rise or fall of strip prices is typically more extreme than with conventional bonds of the same issuer, term and credit rating. The primary reason for this greater volatility is that no interest is paid in respect of a strip bond prior to its maturity
  - Unlike conventional bonds that trade in \$1,000 increments, strips may be purchased in \$1 multiples above the minimum investment amount, thereby enabling a holder to purchase a strip for any desired face value amount and
  - Strips are less liquid than conventional bonds of the same issuer, term and credit rating: there may not be a secondary market for certain strips and strip bond packages, and there is no requirement or obligation for investment dealers or financial institutions to maintain a secondary market for strips sold by or through them; as a result, purchasers should generally be prepared to hold a strip to maturity, since they may be unable to sell it – or only able to sell it at a significant loss – prior to maturity

## STRIPS VS. CONVENTIONAL BONDS

- Strips are offered on a variety of terms and in respect of a variety of underlying bonds, including government bonds issued by the Government of Canada or provincial, municipal and other government agencies, or a foreign government. CARs and PARs are examples of strips derived from high-quality corporate bonds. Some differences between strips and conventional bonds that you may wish to consider include the following:

# Options and Futures Trading

## RISK DISCLOSURE STATEMENT FOR FUTURES AND OPTIONS

- This brief statement does not disclose all of the risks and other significant aspects of trading in futures and options. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Trading in futures and options is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

## FUTURES

### 1. EFFECT OF "LEVERAGE" OR "GEARING"

- Transactions in futures carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract so that transactions are "leveraged" or "geared." A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit: this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the firm to maintain your position. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be liable for any resulting deficit.

## OPTIONS

### 2. VARIABLE DEGREE OF RISK

- Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarize themselves with the type of option (put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, considering the premium and all transaction costs.
- The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a future position with associated liabilities for margin (see the section on Futures above). If the purchased options expire worthless, you will suffer a total loss of your investment, which will consist of the option premium plus transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable is usually remote.
- It should be noted that trading in Futures and/or Options is not for the average investor as it involves a much higher degree of risk and may not be in their best interest as a potential investment.

# Flow Through Shares (FTS)

Flow through shares are viewed as speculative investments so you will need to understand the details of the flow through along with any required hold period applicable to ownership of FTS.

Flow-through shares are a financing tool available to a Canadian resource company that allows it to issue new equity (shares) to investors at a higher price than it would receive for “normal” shares, thereby assisting it in raising money for exploration and development.

Flow Through Shares are a special issue of common shares where the tax deductions are issued to the original investors and then become regular common shares after the tax deduction is completed. Corporations that issue FTS typically generate Canadian Exploration Expense (CEE) which is a 100% deduction against income.

## *TAX IMPLICATIONS*

When investors purchase shares or units of flow-through shares or flow-through LPs, they are generally able to deduct the entire cost of these shares against their taxable income over a period of 2 or more years.

Eligible Canadian Exploration Expenses (CEE) and Canadian Development Expenses (CDE) are flowed through, or renounced, by the corporation to investors each year, and the investors can deduct these expenses from income.

It's important to note that the adjusted cost base (ACB) of a flow-through share is deemed to be zero. This means that when you eventually sell your shares, the sale proceeds will be taxed as a capital gain.

Varying tax slips are issued to investors depending on whether purchased directly through a principal business corporation or if purchased through a partnership or limited partnership.

Clients are asked to consult their tax advisors before investing in FTS

# Off-book borrowing for investment purposes

- In this Information Statement, the term “Off-book borrowing for investment purposes” is a strategy that enables you to borrow money from third parties, to make investments with the objective of enhancing your investment returns.
- This leverage strategy carries a high degree of risk. Whether the investment makes money or not, you must still pay back the money plus interest. The possibility that interest rates may increase or the possibility that the market may decline should be considered as you may see your debt rise and suffer greater losses.
- CLRIM does not allow Investment Advisors to recommend a leverage strategy through loans advanced by third parties. When such a strategy is used nevertheless, the Investment Advisor must fulfill his obligations regarding investment suitability, the strategy used and the method of financing. Investment suitability assessment depends on your investment profile.

## RISKS ASSOCIATED WITH SUCH A STRATEGY

- When the Investment Advisor becomes aware of your intent to use a borrowing-to-invest strategy, or that you have used such a strategy, he is required to fulfill his suitability assessment obligations.

## YOU SHOULD BE AWARE THAT:

- Using money borrowed from others to purchase investments involves greater risk than a purchase using your own money
- You have a continuing obligation to repay principal and interest even if the value of the investment goes down and
- Use of a borrowing-to-invest strategy could result in far greater losses than an investment strategy that does not involve the use of borrowed money



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CAMPBELL LEE & ROSS

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