

RULE 4

TRADING OF CNSX-LISTED SECURITIES

TRADING ON THE CNSX SYSTEM

4-101 Access to CNSX System

- (1) A CNSX Dealer shall not permit any person to trade on the CNSX System unless such person is
 - (a) is an Approved Trader in good standing on the Toronto Stock Exchange or the TSX Venture Exchange;
 - (b) has successfully completed the Trader Training Course of the Canadian Securities Institute; or
 - (c) has completed such other courses to ensure proficiency in the CNSX Rules as CNSX may determine from time to time.
- (2) A CNSX Dealer shall ensure that each person entering orders on the CNSX System has all necessary registrations under applicable securities legislation and is trained in and understands these Rules.
- (3) A CNSX Dealer's trade supervision procedures adopted pursuant to Part 7.1 of UMIR shall include provisions to monitor trading on the CNSX System in compliance with these Rules.

4-102 General Rules Applicable to Order Entry

- (1) Each order entered on the CNSX System shall be subject to any special rule or direction issued by CNSX or the Market Regulator with respect to:
 - (a) clearing and settlement; and
 - (b) entitlement of the purchaser to receive a dividend, interest or any other distribution made or right given to holders of that security.
- (2) Each order entered on the CNSX System shall contain in addition to the UMIR required identifiers and designations a designation acceptable to the Market Regulator, if the order is:

- (a) a Market Maker short sale exempt order; or
 - (b) of a type for which CNSX or the Market Regulator may from time to time require a specific or particular designation.
- (3) A CNSX Dealer entering a client order on CNSX System which is a distribution of a security of a CNSX Issuer being made in reliance on Multilateral Instrument 45-102 shall not enter the client order until the Form 45-102F3 Notice of Intention to Distribute Securities and Accompanying Declaration has been filed with the Commission and posted concurrently by the CNSX Issuer on behalf of the seller on the CNSX.ca website within the time frame prescribed in Multilateral Instrument 45-102.

4-103 Minimum Price Variation

The minimum trading increment for CNSX-listed securities shall be as follows:

<u>Price per security</u>	<u>Increment</u>
less than \$0.50	\$0.005
\$0.50 and higher	\$0.01

4-104 Advantage Goes with Securities Sold

- (1) In all trades of CNSX-listed securities, all entitlements to receive dividends or any other distribution made or right given to holders of that security shall pass with the security and shall belong to the purchaser, unless otherwise provided by CNSX, the Market Regulator or the parties to the trade by mutual agreement.
- (2) Claims for dividends, rights or any other benefits to be distributed to holders of record of CNSX-listed securities on a certain date shall be made in accordance with the procedures established by the Clearing Corporation.
- (3) If subscription rights attaching to securities are not claimed by the persons entitled to those rights at least twenty-four hours before the expiration of the time within which trading in respect of such rights may take place on the CNSX System, a CNSX Dealer holding such rights may, in its direction, sell or exercise all or any part of such rights, and shall account for such sale or exercise to the person or persons entitled to such rights, but in no case shall a CNSX Dealer be liable for any loss arising through failure to sell or exercise any unclaimed rights.

4-105 Foreign Currency Trading

- (1) A report of a cross trade in a CNSX-listed security agreed to in a foreign currency that is reported in Canadian dollars shall be converted to Canadian dollars using the mid-market spot rate or 7-day forward exchange rate in effect at the time of the trade, plus or minus 15 basis points, rounded down to the nearest whole cent, and vice versa.
- (2) The CNSX Dealer making the cross shall keep a record of the exchange rate used.

TYPES OF ORDERS THAT MAY BE ENTERED

4-106 Entry of Orders for CNSX-Listed Securities

- (1) Subject to Rule 4-107, any CNSX Dealer may enter
 - (a) orders and
 - (b) crosses at any price between the bid and offerinto the CNSX System for a CNSX-listed security.
- (2) Orders (other than special terms orders and crosses) may be entered on a fully-disclosed or partially disclosed basis.
- (3) Orders entered on a partially-disclosed basis must disclose at least 50% of the total volume on entry and must be at least 5 Board Lots in size.

4-107 Entry of Orders for Market Maker Securities

- (1) Only a Designated Market Maker may enter
 - (a) orders and
 - (b) crosses at any price between the bid and offerinto the CNSX System on behalf of another participant for a Market Maker security.

MARKET INTEGRITY RULES

4-108 Fair Prices

A CNSX Dealer dealing in a CNSX-listed security for its own account with a customer shall buy or sell at a fair price, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that it is entitled to a profit; and if the Dealer acts as agent in any such transaction, it shall not charge the customer more than a fair commission or service charge, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service it may have rendered by reason of its experience in and knowledge of such security and the market.

Commentary: Rule 4-108 — Mark-Up Policy

It is a violation of Rule 4-108 for a CNSX Dealer to enter into any transaction with a customer in any CNSX-listed security at any price not reasonably related to the current market price of the security or to charge a commission that is not reasonable. The Ontario Securities Commission has also held that excessive mark-ups are contrary to public policy in several enforcement actions against securities dealers operating in the over-the-counter market.

The following guidelines, which are adapted from the NASD Regulation Inc. IM-2440, apply to dealings with customers in CNSX-listed securities. In addition, CNSX Dealers are reminded that all other applicable rules (for example, the best execution and customer-principal trading rules) also apply to trades subject to Rule 4-108.

(1) General Considerations

- (a) A dealer shall not excessively charge a customer on a transaction in a CNSX security. "Charges," which are referred to as "mark-ups" in this Policy, may take the form of premiums or discounts from the prevailing market price, commissions, or profit from the difference between acquisition and disposition price in a riskless or near-riskless trade. Generally speaking, mark-ups should not be more than 5% of the purchase price, but this is a guideline and not a limit. Depending on the circumstances, a mark-up pattern of 5% or even less may be considered unfair or unreasonable while, in other circumstances, mark-ups above 5% may be justified.
- (b) A Dealer may not justify mark-ups on the basis of expenses that are excessive.
- (c) The mark-up over the prevailing market price is the significant spread from the point of view of fairness of dealings with customers in principal transactions. *In the absence of other bona fide evidence of the prevailing market, a Dealer's own contemporaneous cost is the best indication of the prevailing market price of a security.*

- (d) Determination of the fairness of mark-ups must be based on a consideration of all the relevant factors, of which the percentage of mark-up is only one.

(2) Relevant Factors

Some of the factors which CNSX Dealers should take into consideration in determining the fairness of a mark-up are as follows:

- (a) *The Availability of the Security in the Market.* In the case of an inactive security the effort and cost of buying or selling the security, or any other unusual circumstances connected with its acquisition or sale, may have a bearing on the amount of mark-up justified.
- (b) *The Price of the Security.* While there is no direct correlation, the percentage of mark-up or rate of commission generally increases as the price of the security decreases. Even where the amount of money is substantial, transactions in lower priced securities may require more handling and expense and may warrant a wider spread.
- (c) *The Amount of Money Involved in a Transaction.* A transaction which involves a small amount of money may warrant a higher percentage of mark-up to cover the expenses of handling.
- (d) *Disclosure.* Any disclosure to the customer, before the transaction is effected, of information that would indicate (i) the amount of commission charged in an agency transaction or (ii) mark-up made in a principal transaction is a factor to be considered. Disclosure itself, however, does not justify a commission or mark-up which is unfair or excessive in light of all other relevant circumstances.
- (e) *The Pattern of Mark-Ups.* While each transaction must meet the test of fairness, CNSX believes that particular attention should be given to the pattern of a Dealer's mark-ups.
- (f) *The Nature of the Dealer's Business.* Different services and facilities are needed by, and provided for, customers of Dealers. If not excessive, the cost of providing such services and facilities, particularly when they are of a continuing nature, may properly be considered in determining the fairness of a Dealer's mark-ups.

(3) Transactions to Which the Policy is Applicable

The Policy applies to trading in CNSX-listed securities, and particular, in the following transactions:

- (a) A transaction in which a Dealer buys a security to fill an order for the same security previously received from a customer. This transaction would include the so-called “riskless” or “simultaneous” transaction.
- (b) A transaction in which the Dealer sells a security to a customer from inventory. In such a case the amount of the mark-up would be determined on the basis of the mark-up over the bona fide representative current market. The amount of profit or loss to the Dealer from market appreciation or depreciation before, or after, the date of the transaction with the customer would not ordinarily enter into the determination of the amount or fairness of the mark-up. If however, the Dealer dominates trading in the market or is part of a group that dominates trading in the market, the acquisition or disposition cost before or after the date of the transaction with the customer is the basis on which the mark-up is to be calculated, and not the prevailing market at the time of the trade.
- (c) A transaction in which a Dealer purchases a security from a customer. The price paid to the customer or the mark-down applied by the Dealer must be reasonably related to the prevailing market price of the security. Again, if the Dealer dominates trading in the market or is part of a group that dominates trading in the market, the acquisition or disposition cost before or after the date of the transaction with the customer is the basis on which the mark-down is to be calculated, and not the prevailing market at the time of the trade.
- (d) A transaction in which the Dealer acts as agent. In such a case, the commission charged the customer must be fair in light of all relevant circumstances.
- (e) Transactions wherein a customer sells securities to, or through, a Dealer, the proceeds of which are utilized to pay for other securities purchased from, or through, the Dealer at or about the same time. In such instances, the mark-up shall be computed in the same way as if the customer had purchased for cash and in computing the mark-up there shall be included any profit or commission realized by the Dealer on the securities being liquidated, the proceeds of which are used to pay for securities being purchased.

TRADING IN THE SYSTEM

4-109 Trading at the Opening

RULE 4 – TRADING OF LISTED SECURITIES

November 14, 2008
Page 6

- (1) Subject to Rules 4-106, 4-107, and 4-114, the following orders may be entered prior to the opening:
 - (a) limit orders;
 - (b) unpriced orders; and
 - (c) hit and take orders.
- (2) Special Terms Orders may be entered prior to the opening but shall not trade at the opening.
- (3) Orders eligible to trade at the opening are displayed at the COP and all trades at the opening are at the COP.
- (4) Any orders that remain unfilled after the opening remain entered on the CNSX System and have time priority based on the actual time of entry.

4-110 Special Terms Orders

- (1) Special Terms Orders are queued in a special terms book, separate from the regular book orders.
- (2) Multiple Special Term Orders at a single limit price are queued by time priority amongst themselves.
- (3) Special fill term orders are eligible for matching with orders from the regular book.
- (4) Special delivery term orders are not eligible for matching with orders from the regular book. Special delivery term orders must trade with orders from the special terms book.

4-111 Trading After the Opening

- (1) A tradeable order for a CNSX-listed security shall be allocated among offsetting orders on the bid or offer (as the case may be) individually by time priority.
- (2) The undisclosed portion of a partially-disclosed order does not have time priority until it is disclosed, at which time it ranks behind all other orders in the CNSX System at that price.

MARKET MAKERS

4-112 Appointment of Market Makers

- (1) A CNSX Dealer wishing to make a market in a CNSX-listed security shall file notice thereof with CNSX on the prescribed form and shall become obligated to perform the functions of a Market Maker upon approval by CNSX.
- (2) Subject to Rule 4-101, a CNSX Dealer approved as a Market Maker shall appoint a Primary Trader to perform the obligations set out in these Rules and an Alternate Trader to act in the absence of the Primary Trader.
- (3) A CNSX Dealer approved as a Market Maker must maintain a two-sided continuous quotation for a period of not less than three consecutive calendar months and must give CNSX at least 30 days advance notice of its intention to relinquish any Market Maker Obligations.
- (4) A CNSX Dealer which ceases to act as a Market Maker in respect of a CNSX-listed security may not become a Market Maker in that security for a period of 30 days.
- (5) CNSX may in its sole discretion designate a CNSX Dealer as a Market Maker in respect of a CNSX-listed security where the CNSX Dealer's trading activities suggest the market will be better served by the CNSX Dealer assuming the responsibilities of a Market Maker.

4-113 Quotations

- (1) *Two-Sided Quotations.* A Designated Market Maker shall
 - (a) buy and sell such security for its own account on a continuous basis, and
 - (b) enter and maintain two sided quotations in the CNSX System.
- (2) *Minimum Size.* A Designated Market Maker's displayed quotation size shall be for at least one Board Lot on each side of the market and may be for larger multiples thereof.
- (3) *Firm Quotations.* A Designated Market Maker that receives a tradeable client order to buy or sell from another CNSX Dealer shall execute the order to at least to the size displayed on the bid or offer (as the case may be).

- (4) *Quotations Reasonably Related to the Market.* A Market Maker shall enter and maintain quotations that are reasonably related to the prevailing market.
- (5) *Reasonably Competitive Quotations.* A Market Maker must enter reasonably competitive quotations for a security into the CNSX System, in the context of the market and over time, that generally do not exceed the average of all Market Maker spreads in that security over time.
- (6) *Autoquote Restrictions.* A Market Maker may not use automatic quotation update techniques or systems that track changes to best ask price and best bid price quotations and automatically generate quotations.

4-114 Limit Order Protection

- (1) A Designated Market Maker shall accept and provide best execution of a client order of a CNSX Dealer (other than another Designated Market Maker in the same security) if the CNSX Dealer declares to the Market Maker that the order is a client order.
- (2) Subject to Rule 4-108, a Market Maker shall be entitled to a commercially reasonable commission or transaction fee for handling a client order, to be negotiated between the Market Maker and the CNSX Dealer.
- (3) A Market Maker is under no obligation to accept or handle a non-client or principal order.

4-115 Additional Requirements

- (1) A Market Maker shall immediately notify CNSX and the Market Regulator of any unusual trading or order-entry patterns in a listed security that suggests that the security may be subject to manipulative trading practices or unusual volatility.
- (2) A Market Maker shall comply with such additional requirements as may be prescribed from time to time by CNSX or the Market Regulator.
- (3) A Market Maker shall make such reports to the CNSX or Market Regulator as may be prescribed or requested from time to time by CNSX or the Market Regulator.