



THE MANITOBA
SECURITIES
COMMISSION

Form 12

DISCLOSURE STATEMENT FOR RECOGNIZED MARKET OPTIONS

The Commodity Futures Act

No securities commission or similar authority in Canada has in any way passed upon the merits of Options referred to herein and any representation to the contrary is an offence. This document contains condensed information respecting the Options referred to herein. Additional information may be obtained from your broker.

DISCLOSURE STATEMENT FOR RECOGNIZED MARKET OPTIONS

A high degree of risk may be involved in the purchase and sale of Options, depending to a large measure on how and why Options are used. Options may not be suitable for every investor. See “Risks in Options Trading” and “Additional Information”.

INTRODUCTION

This Disclosure Statement provides general information relevant to the purchase and sale of Put and Call Options traded on a recognized market and cleared through a clearing corporation. Information concerning the underlying interests on which Options are traded, the terms and conditions of these Options, the recognized markets on which they trade and the applicable clearing corporations may be obtained from your broker. Information on investment strategies and possible uses of Options may also be obtained from your broker.

This Disclosure Statement refers only to Options and clearing corporations which have been recognized or qualified for purposes of this Disclosure Statement by provincial securities administrators where required. The Options discussed herein trade on markets that, for the purposes of this Disclosure Statement only, are referred to as recognized markets.

THE NATURE OF AN OPTION

An Option is a contract entered into on a recognized market between a seller (a writer) and a purchaser where all the terms and conditions of the contract (the “specifications”), other than the consideration (the “premium”) for the Option, are standardized and predetermined by the recognized market. The premium, paid by the purchaser to the seller, is determined in the market on the basis of supply and demand, reflecting such factors as the duration of the Option, the difference between the exercise price of the Option and the market price of the underlying interest, the price volatility and other characteristics of the underlying interest.

There are two types of Options: Calls and Puts. A Call gives the purchaser a right to buy, and a Put the right to sell, a specific underlying interest at a stated exercise price and within a specified period of time or on a specific date. An Option obligates the seller to honor the right granted to

the purchaser if exercised by the purchaser. Underlying interests can be shares of a specific corporation, bonds, notes, bills, certificates of deposit, commodities, foreign currency, the cash value of an interest in a stock index or any other interest provided for in the specifications.

An Option transaction is entered into on a recognized market by a purchaser and a seller represented by their respective brokers. When the transaction is concluded it is cleared by a clearing corporation affiliated with the recognized market on which the Option is traded. When an Option transaction is cleared by the clearing corporation it is divided into two contracts with the clearing corporation becoming the seller to the purchaser in the transaction and the purchaser to the seller. Thus on every outstanding Option, the purchaser may exercise the Option against the clearing corporation and the seller may be called upon to perform his obligation through exercise of the Option by the clearing corporation.

Options may also be classified according to delivery requirements: actual delivery and cash delivery. An actual delivery Option requires the physical delivery of the underlying interest if the Option is exercised. A cash delivery Option requires a cash payment of the difference between the aggregate exercise price and the value of the underlying interest at a specified time prior or subsequent to the time the Option is exercised.

Options are issued in series designated by an expiration month, an exercise price, an underlying interest and a unit of trading. At the time trading is introduced in Options with a new expiration month, the recognized market on which the Option is traded establishes exercise prices that reflect the current spot prices of the underlying interest. Generally, three series of Options are introduced with exercise prices at, below and above the current spot price. When the spot price of the underlying interest moves, additional Options may be added with different exercise prices. Options having the same underlying interest and expiration month but having different exercise prices may trade at the same time.

SPECIFICATIONS OF OPTIONS

Specifications of Options are fixed by the recognized market on which they are traded. These specifications may include such items as trading units, exercise prices, expiration dates, last day of trading, and the time for determining settlement values.

An Option may be bought or sold only on the recognized market on which the Option is traded. The recognized market and the clearing corporation may each impose restrictions on certain types of transactions and under certain circumstances may modify the specifications of outstanding Options. In addition, a recognized market or a clearing corporation may limit the number of Options that may be held by an investor and may limit the exercise of Options under prescribed circumstances.

EXERCISING OPTIONS

An Option may have either an American style exercise or European style exercise regardless of where the recognized market is located. An American style Option can be exercised by the purchaser at any time before the expiration. To do this, the purchaser notifies the broker through whom the Option was purchased. A purchaser should ascertain in advance from his broker the latest date on which he may give such notice to his broker. A European style Option may only be exercised by the purchaser on a specified date. Upon receiving an exercise notice from the purchaser's broker, the clearing corporation assigns it to a member who may re-assign it to a client on a random or other predetermined selection basis.

Upon assignment, the seller must make delivery of (in the case of a Call) or take delivery of and pay for (in the case of a Put) the underlying interest. In the case of a cash delivery Option, the seller must, in lieu of delivery, pay the positive difference between the aggregate exercise price and the settlement value of the underlying interest (in the cases of both Call and Put).

A purchaser of an Option that expires loses both the premium paid for the Option and transaction costs. The seller of an Option that expires will gain the premium received for the Option less transaction costs.

TRADING OF OPTIONS

Each recognized market permits secondary market trading of its Options. This enables purchasers and sellers of Options to close out their positions by offsetting sales and purchases. By selling an Option with the same terms as the one purchased, or buying an Option with the same terms as the one sold, an investor can liquidate his position (called an “offsetting transaction”). Offsetting transactions must be made prior to expiration of an Option or by a specified date prior to expiration. Offsetting transactions must be effected through the broker through whom the Option was initially Sold or purchased.

Price movements in the underlying interest of an Option will generally be reflected to some extent in the secondary market value of the Option. The purchaser who wishes to realize a profit will have to sell or exercise his Option during the life of the Option or on the specified date for exercise, as the case may be.

COSTS OF OPTIONS TRADING

(1.) Margin Requirements

Prior to trading Options, a seller must deposit with his broker cash or securities as collateral (“margin”) for the obligation to buy (in the case of a Put) or sell (in the case of a Call) the underlying interest if the Option should be exercised. Minimum margin rates are set by the recognized market on which the Option trades. Higher rates of margin may be required by the seller's broker.

Margin requirements of various recognized markets may differ. In addition, they are subject to change at any time and such changes may apply retroactively to Option positions previously established.

(2.) Commission charges

Brokers charge commissions on the purchase or sale of Options as well as on the exercise of Options and the delivery of underlying interests.

RISKS IN OPTIONS TRADING

Options can be employed to serve a number of investment strategies including those concerning investments in or related to underlying interests. **Some strategies for buying and selling options involve greater risk than others.**

The following is a brief summary of some of the risks connected with trading in Options:

(1.) Because an Option has a limited life, the purchaser runs the risk of losing his entire investment in a relatively short period of time. If the price of the underlying interest does not rise above (in the case of a Call) or fall below (in the case of a Put) the exercise price of the Option plus premium and transaction costs during the life of the Option, or by the specified date for exercise, as the case may be, the Option may be of little or no value and if allowed to expire will be worthless.

(2.) The seller of a Call who does not own the underlying interest is subject to a risk of loss should the price of the underlying interest increase. If the Call is exercised and the seller is required to purchase the underlying interest at a market price above the exercise price in order to make delivery, he will suffer a loss.

(3.) The seller of a Put who does not have a corresponding short position (that is, an obligation to deliver what he does not own) in the underlying interest will suffer a loss if the price of the underlying interest decreases below the exercise price, plus transaction costs minus the premium received. Under such circumstances, the seller of the Put will be required to purchase the underlying interest at a price above the market price, with the result that any immediate sale will give rise to a loss.

(4.) The seller of a Call who owns the underlying interest is subject to the full risk of his investment position should the market price of the underlying interest decline during the life of the Call, or by the specified date for exercise, as the case may be, but will not share in any gain above the exercise price.

(5.) The seller of a Put who has a corresponding short position in the underlying interest is subject to the full risk of his investment position should the market price of the underlying interest rise during the life of the Put, or by the specified date for exercise, as the case may be, but will not share in any gain resulting from a decrease in price below the exercise price.

(6.) Transactions for certain Options may be carried out in a foreign currency. Accordingly, purchasers and sellers of these Options using Canadian dollars will be exposed to risks from fluctuations in the foreign exchange market as well as to risks from fluctuations in the price of the underlying interest.

(7.) There can be no assurance that a liquid market will exist for a particular Option to permit an offsetting transaction. For example, there may be insufficient trading interest in the particular Option; or trading halts, suspensions or other restrictions may be imposed on the Option or the underlying interest; or some event may interrupt normal market operations; or a recognized market could for regulatory or other reasons decide or be compelled to discontinue or restrict trading in the Option. In such circumstances the purchaser of the Option would only have the alternative of exercising his Option in order to realize any profit, and the seller would be unable to terminate his obligation until the Option expired or until he performed his obligation upon being assigned an exercise notice.

(8.) The seller of an American style Option has no control over when he might be assigned an exercise notice. He should assume that an exercise notice will be assigned to him in circumstances where the seller may incur a loss.

(9.) In unforeseen circumstances there may be a shortage of underlying interests available for delivery upon exercise of actual delivery Options, which could increase the cost of or make impossible the acquisition of the underlying interests and cause the clearing corporation to impose special exercise settlement procedures.

(10.) In addition to the risks described above which apply generally to the buying and selling of Options, there are timing risks unique to Options that are settled by the payment of cash.

The exercise of Options settled in cash results in a cash payment from the seller to the purchaser based on the difference between the exercise price of the Option and the settlement value. The settlement value is based on the value of the underlying interest at a specified time determined by the rules of the recognized market. This specified time could vary with the Option. For example, the specified time could be the time for establishing the closing value of the underlying interest on the day of exercise or in the case of some Options based on a stock index the time for establishing the value of the underlying interest that is based on the opening prices of constituent stocks on the day following the last day of trading. Options for which the settlement value is based on opening prices may not, unless the applicable recognized market announces a rule change to the contrary, trade on that day.

The settlement value for Options, futures contracts and futures options may not be calculated in the same manner even though each may be based on the same underlying interest.

Where the settlement value of a cash delivery Option is determined after the exercise period, the purchaser who exercises such Option will suffer from any unfavourable change in the value of the underlying interest from the time of his decision to exercise to the time settlement value is determined. With actual delivery Options, this risk can be covered by a complementary transaction in the actual market for the underlying interest.

The seller of a cash delivery Option is not informed that he has been assigned an exercise notice until the business day following exercise, at the earliest, and the seller will suffer from any unfavourable change in the value of the underlying interest from the time of determination of the settlement value to the time he learns that he has been assigned. Unlike the seller of an actual delivery Option, the seller of a cash delivery Option cannot satisfy his assignment obligations by delivery of the lower valued underlying interest, but must pay cash in an amount determined by the settlement value.

The type of risk discussed above makes spreads and other complex option strategies involving cash delivery Options substantially more risky than similar strategies involving actual delivery Options.

TAX CONSEQUENCES

The income tax consequences of trading in Options are dependent upon the nature of the business activities of the investor and the transaction in question. Investors are urged to consult their own professional advisers to determine the consequences applicable to their particular circumstances.

ADDITIONAL INFORMATION

Before buying or selling an Option an investor should discuss with his broker:

- Specific investment needs and objectives
- The risks the investor is prepared to take
- The specifications of Options the investor may wish to trade
- Commission rates
- Margin requirements
- Any other concerns

Specifications for each Option are available on request from your broker and from the recognized market on which the Option is traded. Should there be a difference in interpretation between this document and the specifications for a given Option, the specifications prevail.