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**REGULATIONS AND RISKS**

## REGULATION

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SVX is a not-for-profit entity and is a wholly-owned subsidiary of MaRS Discovery District ("MaRS") with its head office at 101 College Street, Suite 420, Toronto, ON, M5G 1L7. SVX is registered as an exempt market dealer in Ontario, Quebec, Alberta, British Columbia and Saskatchewan with the Ontario Securities Commission as its principal regulator.

The investment opportunities posted on this portal have not been reviewed or approved in any way by a securities regulatory authority or regulator. They are risky and may result in the loss of all or most of your investment. You may receive limited ongoing information about an issuer or an investment made through this portal.

The "exempt market" describes a section of Canada's capital markets where securities can be sold without the protections associated with a prospectus. Examples of activity in the exempt market include:

- Canadian and foreign companies, both public and private, selling securities to institutional investors and qualified investors
- Canadian and foreign hedge funds and pooled funds selling securities to institutional investors and qualified investors

Generally, securities offered to the public in Canada must be offered under a prospectus, which is a document that provides detailed information about the security and the company offering it. However, there are some exceptions to this rule that allow securities to be offered without a prospectus, called prospectus exemptions. These prospectus exemptions can help a company raise money without the time and expense of preparing a prospectus.

Investors who buy securities through prospectus exemptions generally do not have the benefit of ongoing information about the security that they are buying or the company selling it. As well, they often do not have the ability to easily resell the security.

SVX supports investments by Ontario, Quebec, Alberta and British Columbia residents under various prospectus exemptions available to companies raising capital, including:

1. **Crowdfunding Exemption** – any resident of Ontario, Quebec or Alberta may purchase securities from any private company with its head office in such provinces, provided that following conditions are satisfied:

- the individual invests no more than \$2,500 per offering and \$10,000 (Ontario and Alberta) in total in a calendar year;
  - if the individual is an Accredited Investor, no more than \$25,000 per offering and \$50,000 (Ontario and Alberta) in total in a calendar year;
  - if the individual is a Permitted Client, no limits apply;
  - each investor must complete and submit a confirmation of investment limits, Form 45-108F3;
  - the company raising capital (the Issuer) distributes its securities through an online Funding Portal;
  - the issuer cannot raise more than \$1,500,000 per offering in a 12 month period;
  - the issuer distributes securities using the Crowdfunding Offering Document (Form 45-108F1) made available through the online Funding Portal;
  - the issuer discloses financial statements at the point of sale;
  - the issuer provides a Notice of Specified Key Events, Form 45-108F4 to investors within 10 days of the event (Ontario only);
  - the issuer obtains a Risk Acknowledgement Form from the investor prior to transacting (Form 45-108F2);
  - the issuer must complete Personal Information Form (“PIF”) (Form 45-108F5) for every director, executive officer, and promoter of an eligible crowdfunding issuer.
2. **Offering Memorandum Exemption** – under this exemption, any resident of Ontario, Quebec Alberta, British Columbia or Saskatchewan may purchase securities from any issuer in such provinces provided the following conditions are satisfied:
- the client buys the security on his or her own behalf;
  - before the purchaser signs the agreement to purchase the securities, the issuer:
    - a. obtains a signed risk acknowledgement form (Form 45-106F4) from the purchaser. Except in BC, the form will include schedules 1 and 2 classification of investors and confirmation of investor limits; and
    - b. delivers an offering memorandum, prepared in the required form, to the purchaser (Form 45-106F2 or 45-106F3).
  - if the individual is a retail investor, invests no more than \$10,000 in a 12 month period;
  - if the individual is an eligible investor, has not received advice from a portfolio manager, investment dealer or exempt market dealer that the investment is suitable and invests no more than \$30,000 in a 12 month period;
  - if the individual is an eligible investor, invests no more than \$100,000 in a 12 month period and has received advice from portfolio manager, investment dealer or exempt market dealer that the particular investment is suitable;
  - no investor limits apply to residents of BC;

- except in BC, issuers must file Notice of Use of Proceeds within 4 months of year end with the Securities regulators (Form 45-106F16);
  - issuers must notify investors in Ontario in the event of a discontinuation of the issuer's business, a change in the issuer's industry or a change of control of the issuer by filing a Notice of Specified Key Events (Form 45-106F17);
  - except in BC, issuers must file audited financial statements within 4 months of year end.
3. **Accredited Investor Exemption** – under this exemption, any resident of Ontario, Quebec Alberta, British Columbia or Saskatchewan may purchase securities from any issuer in such provinces, provided the issuer obtains a signed risk acknowledgement form (Form 45-106F9) from the investor and the investor satisfies any of the following criteria:
- earned a net income before taxes which exceeds \$200,000 (or \$300,000 combined income with spouse) in each of the two most recent years and who reasonably expects to exceed that net income in the current year;
  - has alone or with spouse at least \$1 million in liquid financial assets (cash and securities) before taxes. (In calculating an individual's financial assets, any outstanding loans incurred to acquire those assets must be deducted.);
  - holds alone or with spouse at least \$5 million in net assets;
  - is a corporation, limited partnership, trust or permitted client having net assets of at least \$5 million.

## RISKS

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The main objective of these issuers is not to maximize returns to investors and you should invest in issuers whose offerings are posted on the SVX platform only if you are prepared not to receive any return on your investment and to lose your investment in its entirety. There are significant risks associated with the offerings posted on the SVX platform, including the severe illiquidity (including that there is no market for resale of securities issued through the offerings) and potential volatility of the investment.

The following are some risks of exempt securities:

### Transparency:

- exempt securities are not subject to the reporting issuer regime, they provide less information to their investors, and the information provided is not subject to the oversight of the regulators
- not every exempt security will reveal their portfolio
- it may be difficult for the client to ascertain whether the issuer is actually doing what it

says it will do (i.e. whether it is adhering to its investment mandate, risk control process, trading discipline, and compliance processes)

### Related Issuer

- where the EMD and the dealer are related parties, there is a conflict of interest
- the EMD cannot recommend a trade in a security issued by it or an affiliate unless they disclose the nature and extent of the relationship or connection between the EMD and the issuer

### Independent Review Committee

- there is no Independent Review Committee (IRC) for non-public investment funds

### Liquidity Risks

- most exempt securities are subject to resale restrictions
- there is no secondary market for exempt securities
- the only means for liquidation may be through the issuer and if there is no redemption feature, the client will not be able to liquidate the securities at all
- even exempt securities which offer redemption features often do so on a limited basis and, in most cases, the issuer also has the option to suspend redemptions

### Valuation Risk

- the accuracy and integrity of valuations can give rise to concerns which include:
  - conflicts of interest
  - accuracy of valuations

### Investor Rights

- investors in exempt securities are not afforded the same legal rights that are available to investors who purchase prospectus-based investments
- there are no statutory rights for damages including:
  - right of rescission
  - right of withdrawal
  - secondary market civil liability

### Investment Risk

- there is increased investment risk with exempt securities for the following reasons:
  - the risk of smaller businesses including those in the start-up phase pose higher risks
  - there is a higher risk of fraud due to the lack of transparency
  - the possibility that the client may lose some or all of the principal invested