

13.1.4 Canadian Trading and Quotation System Inc.
Rules

RULE 1

INTERPRETATION AND GENERAL PROVISIONS

1-101 Definitions

(1) Unless otherwise defined or interpreted or the subject matter or context otherwise requires, every term used in these Rules that is:

- (a) defined or interpreted in section 1 of the *Securities Act* has the meaning ascribed to it in that section;
- (b) defined in subsection 1(2) of the Regulation has the meaning ascribed to it in that subsection;
- (c) defined or interpreted in subsection 1.1(3) of National Instrument 14-101 has the meaning ascribed to it in the subsection;
- (d) defined in subsection 1.1(2) of Ontario Securities Commission Rule 14-501 has the meaning ascribed to it in that subsection;
- (e) defined or interpreted in Part 1 of National Instrument 21-101 has the meaning ascribed to it in that part;
- (f) defined in subsection 1.1 of National Instrument 44-101 has the meaning ascribed to it in that subsection;
- (g) defined in section 1.1 of UMIR has the meaning ascribed to it in that section; and
- (h) a reference to a requirement of CNQ shall have the meaning ascribed to it in the applicable by-law, Rule or Policy of CNQ.

(2) In these Rules, unless the subject matter or context otherwise requires:

“affiliated entity” has the meaning ascribed to it in Ontario Securities Commission Rule 45-501.

“ask” or **“offer”** means the lowest price of an order to sell at least one Board Lot of a particular quoted security posted in the CNQ System.

“bid” means the highest price of an order to buy at least one Board Lot of a particular quoted security posted in the CNQ System.

“Board Lot” means a standard trading unit.

“Business Day” means any day from Monday to Friday inclusive, excluding Statutory Holidays.

“by-laws” means any by-law of CNQ as amended and supplemented from time to time.

“Clearing Corporation” means The Canadian Depository for Securities Limited or such other person as recognized by the Commission as a clearing agency for the purposes of the *Securities Act* and which has been designated by CNQ as an acceptable clearing agency.

“Client Matching Order” means a client hit or take order.

“CNQ” means Canadian Quotation and Trading System Inc.

“CNQ Board” means the Board of Directors of CNQ and includes any committee of CNQ’s Board of Directors to which powers have been delegated in accordance with the by-laws or the Rules.

“CNQ Contract” means any contract:

- (a) to buy or sell any quoted security, if such contract is made through the facilities of CNQ; or
- (b) for delivery of and payment for any quoted security (or security which was a quoted security when the contract was made) arising from settlement through the Clearing Corporation.

“CNQ Dealer” means a Participant which has applied to CNQ for, and has been approved by CNQ to access to the CNQ System, provided such access has not been terminated or suspended.

“CNQ Issuer” means an issuer which has its securities qualified for quotation on the CNQ System or which has applied to have its securities qualified for quotation on the CNQ System.

“CNQ Requirements” means collectively:

- (a) these Rules;
- (b) the Policies;
- (c) UMIR; and
- (d) any Decision,

as amended, supplemented and in effect from time to time.

“CNQ System” means the electronic system operated by CNQ for trading and quoting securities.

“CNQ Trading and Access Systems” includes all facilities and services provide by CNQ to facilitate quotation and trading, including, but not limited to: the CNQ System; data entry services; any other computer-based quotation and trading systems and programs, communications facilities between a system operated or maintained by CNQ and a trading or order routing system operated or maintained by a CNQ Dealer, another market or other person approved by CNQ; a communications network linking quotation dissemination, trade reporting and order execution systems; and the content entered, displayed and processed by the foregoing, including price quotations and other market information provided by or through CNQ.

“control block holder” means any person or combination of persons holding a sufficient number of any securities of a CNQ Issuer or CNQ Dealer to affect materially the control of that CNQ Issuer or Dealer, but any holding of any person or combination of persons holding more than 20% of the outstanding voting securities of a CNQ Issuer or Dealer shall, in the absence of evidence of the contrary, be deemed to affect materially the control of that CNQ Issuer or Dealer.

“COP” or “Calculated Opening Price” means the price established by the CNQ System for the opening of trading in a CNQ security.

“cross” means a trade entered by a CNQ Dealer holding matching buy and sell orders.

“CSA Marketplace Rules” means National Instrument 21-101 and companion policy and National Instrument 23-101 and companion policy, as amended from time to time.

“Decision” means any decision, direction, order, ruling or other determination of CNQ, including any committee of CNQ, or the Market Regulator made in the administration or application of these Rules or any Policy.

“Designated Market Maker” means, in respect of a particular Market Maker security, the CNQ Dealer or Dealers appointed as Market Maker for that security.

“Fill or Kill Order” means an order that is filled immediately, in whole or in part, with any unfilled balance cancelled from the CNQ System.

“hit order” means a market or limit order entered on a Fill or Kill basis to sell up to the amount available on the bid.

“holding company” means a corporation that holds, directly or indirectly and alone or in combination with any other person, securities of a CNQ Dealer:

- (a) carrying 50 per cent or more of the votes carried by all voting securities;
- (b) carrying the right to receive 50 per cent or more of any distribution of earnings; or
- (c) accounting for 50 per cent or more of the total capital or equity.

“limit order” means an order to buy at no higher than a specified price and an order to sell at no lower than a specified price.

“Market Maker” means a CNQ Dealer approved as such for a particular quoted security.

“Market Maker security” means a quoted security for which one or more CNQ Dealers have been appointed as Market Maker.

“market order” means an order to buy or sell at the best available price.

“Market Regulator” means Market Regulation Services Inc. or such other person as recognized by the Commission as a regulation services provider for the purposes of the *Securities Act* and which has been retained by CNQ as an acceptable regulation services provider.

“MR Policy” means a Policy as defined in UMIR, being policy statement adopted by the Market Regulator in connection with the administration or application of these Rules as such policy statement is amended, supplemented and in effect from time to time **“notice”** means a communication or document to be given, sent, delivered or served by CNQ pursuant to CNQ Requirements to any person subject to these Rules.

“Policy” means any policy statement, direction or decision adopted by the CNQ Board or any committee of the CNQ Board in connection with the administration or application of the Rules as such policy statement is amended, supplemented and in effect from time to time.

“quotation” means an order to buy and an order to sell a security of a CNQ Issuer entered into the CNQ System by a Market Maker in its capacity as such;

“quoted company” means a CNQ Issuer which has one or more classes of its securities quoted on the CNQ System.

“quoted security” means a security of a CNQ Issuer quoted on the CNQ System.

“recognized self-regulatory organization” means a self-regulatory organization recognized by the Commission.

“registered representative” means a person who has been approved as such by the appropriate recognized self-regulatory organization.

“Regulation” means Ontario Regulation 1015-General Regulation made under the Securities Act, as amended from time to time.

“Related Entity” means, in respect of a particular CNQ Dealer, a person that:

- (a) is an affiliated entity of the CNQ Dealer;
- (b) is a control block holder of the CNQ Dealer or of which the CNQ Dealer is a control block holder

which carries on as a substantial part of its business in Canada that of a broker, dealer or advisor in securities and is not a CNQ Dealer.

“Related Person” means, in respect of a particular CNQ Dealer:

- (a) a Related Entity;
- (b) an employee of the CNQ Dealer or Related Entity;
- (c) general partners, directors and officers of the CNQ Dealer or Related Entity;
- (d) such other person as may be designated from time to time by CNQ.

“Rules” means these rules as adopted by the CNQ Board as amended, supplemented and in effect from time to time.

“Securities Act” means the *Securities Act*, R.S.O. 1990, c. S.5 as amended from time to time.

“settlement day” means any Trading Day on which settlements in quoted securities may occur through the facilities of the Clearing Corporation.

“significant equity interest” means the holding, directly or indirectly and alone or in combination with any other person, of securities:

- (a) carrying 20 per cent or more of the votes carried by all voting securities;
- (b) carrying the right to receive 20 per cent or more of any distribution of earnings; or
- (c) accounting for 20 per cent or more of the total capital or equity of the issuing person.

“Statutory Holiday” means such day or days as may be designated by the CNQ Board or established by law applicable in Ontario.

“take order” means a market or limit order entered on a Fill or Kill basis to buy up to the amount available on the offer.

“Toronto” means the City of Toronto as the same may be constituted from time to time, and in the event that the City of Toronto shall at any time cease to exist, shall mean the municipality in which the registered office of CNQ is located.

“Trading Day” means a Business Day during which trades are executed on the CNQ System.

“UMIR” means the Universal Market Integrity Rules adopted by the Market Regulator as amended from time to time.

“unpriced order” means an order to buy at the ask or to sell at the bid.

1-102 Interpretation

(1) In determining the value of an order for the purposes of these rules, the value shall be calculated as of the time of the receipt or origination of the order and shall be calculated by multiplying the number of shares to be bought or sold under the order by:

- (a) in the case of a limit order, the specified maximum price (for a buy order) or minimum price (for a sell order);
- (b) in the case of a market buy order, the offer; and
- (c) in the case of a market sell order, the bid.

(2) For the purpose of determining the “last sale price” where a sale of at least a Board Lot of a quoted security has not occurred in the CNQ System on a trading day, the last sale price is the price:

- (a) of the last sale of the security on the CNQ System;
- (b) at which the security was issued, if the security has not previously traded on a market place; or
- (c) which has been accepted by the Market Regulator, in any other circumstance.

(3) For the purpose of determining the price at which a security is trading for the purposes of the definition of “Board Lot”, the price shall be the last sale price of the particular security.

(4) For the purposes of these Rules,

“person” includes without limitation a company, corporation, incorporated syndicate or other incorporated organization, sole proprietorship, partnership or trust; and

“trade” has the meaning ascribed to it in the *Securities Act* and, in addition, includes a purchase or acquisition of a security for valuable consideration.

1-103 Exercise of CNQ Powers

- (1) Unless the subject matter or context requires otherwise, wherever CNQ is specified as having any powers, rights, discretion or is entitled to take any action, then the same may be exercised or taken at any time and from time to time on behalf of CNQ by the CNQ Board, the appropriate officers of CNQ or any committee or person designated by the CNQ Board or the President of CNQ, including the Market Regulator.
- (2) Unless the subject matter or context requires otherwise, any exercise of any power, right or discretion or the taking of any action on behalf of CNQ by any person or committee shall be subject to the overall authority of the CNQ Board.

1-104 Rules of Construction

- (1) The division of CNQ Requirements into separate Rules, Policies, divisions, sections, subsections and clauses, the provision of a table of contents and index thereto, and the insertion of headings, indented notes and footnotes are for convenience of reference only and shall not affect the construction or interpretation of CNQ Requirements.
- (2) The use of the words “hereof”, “herein”, “hereby”, “hereunder” and similar expressions indicated the whole of the Rules and not only the particular rule in which the expression is used, unless the context clearly indicates otherwise.
- (3) The word “or” is not exclusive and the word “including”, when following any general statement or term, does not limit that general statement or term to the specific matter set forth immediately after the statement or term, whether or not non-limited language (such as “without limitation” or “but not limited to” or similar words) is used.
- (4) Any reference to a statute, unless otherwise specified, is a reference to that statute and the regulations made pursuant to that statute, with all amendments made and in force from time to time, and to any statute or regulation that may be passed which supplements or supersedes that statute or regulation.
- (5) Unless otherwise specified, any reference to a policy, rule, blanket order or instrument includes

all amendments made and in force from time to time and any policy, rule, blanket order or instrument which supplements or supersedes that policy, rule, blanket order or instrument.

- (6) Grammatical variations of any defined term shall have similar meanings; words imputing the masculine gender include the feminine or neuter gender and words in the singular include the plural and vice versa.
- (7) All times mentioned in CNQ Requirements shall be local time in Toronto on the day concerned, unless the subject matter or context otherwise requires.
- (8) Any reference to currency refers to lawful money of Canada (unless expressed to be in some other currency).
- (9) Failure by CNQ to exercise any of its rights, powers or remedies under the CNQ Requirements or its delay to do so will not constitute a waiver of those rights, powers or remedies. The single or partial exercise of a right, power or remedy will not prevent its subsequent exercise or the exercise of any other right, power or remedy. CNQ will not be deemed to have waived the exercise of any right, power or remedy unless such waiver is made in writing and delivered to the person to which such waiver applies or is published, if such waiver applies generally. Any waiver may be general or particular in its application, as determined by CNQ.

1-105 Appeals of Decisions

- (1) A CNQ Dealer or any person directly affected by a Decision under these Policies, other than a Decision made pursuant to Rule 3-102 or a Decision of the Market Regulator, may appeal such Decision to the CNQ Board.
- (2) A Decision of the CNQ Board may be appealed to the Ontario Securities Commission pursuant to the provisions of the *Securities Act*.
- (3) A Decision of the Market Regulator, other than a Decision made pursuant to Rule 3-102, may be appealed pursuant to the provisions of UMIR.

1-106 Deeming Provisions

- (1) CNQ Dealers are Users for the purposes of UMIR and the CSA Marketplace Rules.
- (2) A client who originates an order that is given by a CNQ Dealer to a designated Market Maker is deemed to be a client of the Market Maker for the purposes of these Rules and UMIR.

RULE 2

CNQ DEALERS

2-101 Qualifications

A dealer applying for approval as a CNQ Dealer shall, prior to being approved as a CNQ Dealer:

- (a) be an Ontario registrant and a member in good standing of the Investment Dealers Association of Canada or such other recognized self-regulatory organization as may be prescribed by CNQ from time to time; and
- (b) meet such standards as may be prescribed from time to time.

2-102 Application

An application for approval as a CNQ Dealer shall be made in such form and contain such information as CNQ may from time to time require.

2-103 Approval as a CNQ Dealer

CNQ may:

- (a) approve a dealer as a CNQ Dealer unconditionally;
- (b) approve a dealer as a CNQ Dealer subject to such terms and conditions as may be considered appropriate or necessary to ensure compliance by the dealer with CNQ Requirements; or
- (c) refuse the application if, after having regard to such factors as CNQ may consider relevant including, without limitation, the past or present conduct, business or condition of the dealer or any of its directors, senior officers or holders of a significant equity interest, CNQ is of the opinion that:
 - (i) the dealer will not comply with CNQ Requirements,
 - (ii) the dealer is not qualified by reason of integrity, solvency, training or experience, or
 - (iii) such approval is otherwise not in the public interest.

2-104 Rights of Applicant

If CNQ proposes to approve a dealer subject to terms and conditions or to refuse a dealer, the applicant shall be:

- (a) provided with a statement of the grounds upon which CNQ proposes to approve the applicant subject to terms and conditions or to reject an applicant with the particulars of those grounds; and
- (b) entitled to appeal the Decision in accordance with the provisions of Rule 1-104.

2-105 Set Up Fee

- (1) A dealer that has been approved as a CNQ Dealer shall pay, before beginning to trade on the CNQ System, the set up fee as may from time to time be fixed by CNQ.
- (2) If a dealer has not paid the set up fee within 30 days of approval by CNQ, such approval shall lapse.

2-106 Register of CNQ Dealers

CNQ shall keep a register of CNQ Dealers, setting out the name and address of each CNQ Dealer.

2-107 Representative of CNQ Dealer

- (1) A CNQ Dealer that is not an individual shall appoint, in writing, an individual as its representative who shall be a senior officer, director or partner of the CNQ Dealer.
- (2) The representative shall:
 - (a) represent the CNQ Dealer in all dealings with CNQ, with full authority to speak for and bind the CNQ Dealer;
 - (b) ensure that the CNQ Dealer, and the partners, shareholders, directors, officers and employees of the CNQ Dealer comply with CNQ Requirements; and
 - (c) be primarily responsible to CNQ for the conduct of the CNQ Dealer and the partners, shareholders, directors, officers and employees of the CNQ Dealer without in any way limiting the duties and liabilities of others under these Rules.

2-108 Not transferable

Approval and status as a CNQ Dealer is not transferable.

2-109 Related Companies

A Related Entity shall comply with all CNQ Requirements as though it were a CNQ Dealer and each partner, owner, director, officer, shareholder or employee of a Related Entity shall comply with CNQ Requirements as though the Related Entity were a CNQ Dealer, except to the extent that non-compliance with specified provisions may be

approved from time to time by CNQ, either generally, individually or by classes.

2-110 Continuing Membership in IDA or SRO

- (1) If a CNQ Dealer is suspended from or ceases to be a member of the Investment Dealers Association of Canada or other prescribed recognized self-regulatory organization, it shall, without hearing or notice, be suspended, such suspension to be deemed an interim order made pursuant to Rule 7-107.
- (2) If, in the opinion CNQ, a CNQ Dealer breaches a requirement of the Investment Dealers Association of Canada or other prescribed recognized self-regulatory organization of which it is a member, CNQ may impose such terms and conditions on the CNQ Dealer as CNQ deems appropriate in the circumstances.

2-111 Fees and Charges

- (1) A CNQ Dealer shall pay such fees and charges as shall be fixed by CNQ, which shall become due and payable to the CNQ at such time or times and in such manner as CNQ shall require.
- (2) If a CNQ Dealer has not paid any fees or charges within 30 days of becoming due and payable, CNQ may, without harm or notice, suspend the CNQ Dealer, such suspension to be deemed an interim order made pursuant to Rule 7-107.

2-112 Notifications

A CNQ Dealer shall give CNQ prior written notice of:

- (a) a change in its name or the name under which it carries on business;
- (b) a change in the address of its head office; and
- (c) a change of its representative.

2-113 Indemnification and Limited Liability of CNQ

- (1) To the extent permitted by law, CNQ and the Market Regulator shall at all times be indemnified and saved harmless by each CNQ Dealer from and against all costs, charges and expenses (including an amount paid to settle an action or satisfy a judgment and including legal and professional fees and out of pocket expenses of attending trials, hearings and meetings), whatsoever that CNQ or the Market Regulator sustains or incurs in or about any action, suit or proceeding, whether civil, criminal or administrative, and including any investigation, inquiry or hearing, or any appeal therefrom, that is threatened, brought, commenced or prosecuted against CNQ or the Market Regulator or in respect

of which CNQ or the Market Regulator is compelled or requested to participate, for or in respect of any act, deed, matter or thing whatsoever made, done or permitted by such CNQ Dealer.

- (2) To the extent permitted by law, all costs, charges and expenses indemnified pursuant to Rule 2-113 shall be paid to CNQ by the CNQ Dealer in advance of the final disposition of the matter and shall be paid promptly or at the latest within 30 days after receiving the written request of CNQ.
- (3) By making use of the CNQ Trading and Access Systems, a CNQ Dealer expressly agrees to accept all liability arising from the use of the CNQ Trading and Access Systems.
- (4) CNQ shall not be liable for any loss, damage, cost, expense, or other liability or claim suffered or incurred by or made against a CNQ Dealer as a result of the use by such CNQ Dealer of the CNQ Trading and Access Systems.
- (5) CNQ shall not be liable to a CNQ Dealer for any loss, damage, cost, expense or other liability or claim arising from any:
 - (a) failure of the CNQ Trading and Access Systems, whether temporary or permanent, arising from any cause;
 - (b) negligent, reckless or wilful act or omission of:
 - (i) the Market Regulator or any director, officer or employee of the Market Regulator;
 - (ii) a director, officer or employee of CNQ or member of a committee appointed by CNQ or the Market Regulator; or
 - (iii) an independent contractor retained by CNQ or the Market Regulator; or
 - (c) operation of the CNQ Trading and Access Systems, including without limitation, any halts, suspension or disqualification from quotation of any security.
- (6) No director, officer or employee of CNQ or the Market Regulator or member of a committee appointed by CNQ or the Market Regulator shall be liable for any loss, damage or misfortune whatever that happens in the execution of his or her duties or in relation thereto, including in the execution of duties, whether in an official capacity or not, for or on behalf of or in relation to CNQ or the Market Regulator or any body corporate or

entity which he or she serves or provides services to at the request of or on behalf of CNQ or the Market Regulator, unless the same is occasioned by his or her own willful neglect or default.

(7) If a legal proceeding that arises directly or indirectly from the use of the CNQ Trading and Access Systems by a CNQ Dealer is brought or threatened against CNQ, the Market Regulator or a person named in Rule 2-113(5)(b), the CNQ Dealer shall reimburse CNQ for:

- (a) all costs, charges, expenses and legal and professional fees incurred to indemnify a person named in Rule 2-113(7);
- (b) any recovery adjudged against CNQ, the Market Regulator or a person named in Rule 2-113(7) if CNQ or such person is found to be liable; and
- (c) any payment made by CNQ with the consent of the CNQ Dealer in settlement of such proceeding.

2-114 Good Standing

- (1) No person shall use, exercise or enjoy any of the rights or privileges of a CNQ Dealer unless the person is a CNQ Dealer that has not been suspended or terminated and that has not been deprived of such rights or privileges pursuant to CNQ Requirements.
- (2) A CNQ Dealer that has been suspended or terminated or that has been deprived of some rights or privileges pursuant to CNQ Requirements shall not for that reason alone lose its rights hereunder in respect of any claims it may have against another CNQ Dealer unless such rights are expressly dealt with.

2-115 Termination

- (1) A CNQ Dealer may terminate its status as a CNQ Dealer by giving not less than 3 months written notice to CNQ.
- (2) CNQ may postpone the effective date of termination until it is satisfied that the CNQ Dealer has:
 - (a) complied with CNQ Requirements; and
 - (b) obtained the necessary consents from the recognized self-regulatory organization of which it is a member.
- (3) CNQ may terminate a CNQ Dealer's status, if CNQ determines, after a hearing conducted according to the rules established under Rule 7, that a CNQ Dealer has:

(a) contravened or is not in compliance with a CNQ Requirement; or

(b) engaged in conduct, business or affairs that is unbecoming, inconsistent with just and equitable principles of trade or detrimental to the interests of CNQ or the public.

2-116 Automatic Suspension

(1) If a CNQ Dealer becomes insolvent or bankrupt or adjudged to be a defaulter in accordance with Rule 5, the CNQ Dealer shall automatically and without the necessity of any action by CNQ, be suspended as a CNQ Dealer and notice of such suspension shall be provided by CNQ to CNQ Dealers.

(2) A CNQ Dealer shall be deemed to be insolvent if:

(a) the CNQ Dealer is for any reason unable to meet its obligations as they generally become due;

(b) the CNQ Dealer has ceased paying its current obligations in the ordinary course of business as they generally become due; or

(c) the aggregate of the property of the CNQ Dealer is not, at a fair valuation, sufficient or, if disposed of at a fairly conducted sale under legal process, would not be sufficient to enable payment of all its obligations, due and accruing due.

(3) A CNQ Dealer shall be deemed to be bankrupt if the CNQ Dealer has committed an act of bankruptcy as set forth in the *Bankruptcy and Insolvency Act* (Canada).

(4) A CNQ Dealer shall forthwith give written notice to CNQ upon the occurrence of any event or act named in Rule 2-116(2) or (3).

RULE 3**GOVERNANCE OF QUOTATION AND TRADING****3-101 Date and Time of Quotation**

- (1) The CNQ System shall be open for quotation and trading on each Business Day.
- (2) Unless otherwise changed by CNQ the CNQ System will be accessible by CNQ Dealers between 8:00 a.m. and 5:00 p.m. on each Business Day as follows:
 - (i) the CNQ System will operate in a pre-open state between 8:00 a.m. and 9:29 a.m. on each Business Day;
 - (ii) the CNQ System will open at 9:30 a.m. and be open for continuous trading until 4:00 p.m. on each Business Day; and
 - (iii) the CNQ System will close at 5:00 p.m. on each Business Day.

3-102 Trading Suspensions and Halts

- (1) The Board may at any time:
 - (a) suspend quotation and trading on the CNQ System;
 - (b) close the CNQ System; or
 - (c) reduce, extend or otherwise alter the time of operation of the CNQ System.
- (2) The Board, the Chairman, the President or senior officer designated by the President to act in his or her absence may, in the event of an emergency or a technical problem with the CNQ Trading and Access Systems that is substantially impairing trading or will likely substantially impair trading if not resolved,:
 - (a) suspend all quotation and trading or quotation and trading in particular quoted securities for that Trading Day; or
 - (b) reduce, extend or otherwise alter the time of operation of the CNQ System for that Trading Day.
- (3) The Market Regulator may halt quotation and trading on the CNQ System in any quoted security at any time and for such period of time as the Market Regulator may consider appropriate in the interest of a fair and orderly market.
- (4) Notwithstanding any other provision, the Market Regulator may delay the opening of trading in any quoted security after the customary time of

opening for any period in order to assist in the orderly opening of such trading.

3-103 Power of the Market Regulator

- (1) The Market Regulator shall administer these Rules and perform the market regulation function in respect of the CNQ System for and on behalf of CNQ.
- (2) The Market Regulator may, in governing trading in quoted securities on the CNQ System:
 - (a) refuse to allow any bid price or ask price to be recorded at any time if, in the opinion of the Market Regulator, such quotation is unreasonable;
 - (b) settle any dispute arising from trading in quoted securities where such authority is not otherwise provided for in any CNQ Requirement;
 - (c) disallow any trade which, in the opinion of the Market Regulator, is unreasonable;
 - (d) alter or cancel any CNQ Contract upon application of the buyer and seller provided such application has been made not later than the Business Day following the day on which the trade was made;
 - (e) provide to any person an interpretation of any CNQ Requirement in accordance with the purpose and intent of such CNQ Requirement and shall ensure that any such interpretation is observed by such person;
 - (f) exercise such powers as are specifically granted to the Market Regulator pursuant to these Rules; and
 - (g) exercise such other powers as may be delegated from time to time by the Board of CNQ.
- (3) In determining whether any quotation or trade in a security is unreasonable, the Market Regulator shall consider:
 - (a) prevailing market conditions;
 - (b) the last sale price of the security;
 - (c) patterns of trading in the security on the CNQ System including volatility, volume and number of transactions; and
 - (d) whether material information concerning the security is in the process of being disseminated to the public.

3-104 General Exemptive Relief

- (1) CNQ may exempt any class of persons or class of transactions from the application of a CNQ Requirement if, in the opinion of CNQ, the provision of such exemption:
- (a) would not be contrary to the provisions of the *Securities Act* (Ontario) or UMIR and the rules and regulations thereunder;
 - (b) would not be prejudicial to the public interest or to the maintenance of a fair and orderly market; and
 - (c) is warranted after due consideration of the circumstances of such class of persons or class of transactions.
- (2) CNQ or the Market Regulator may exempt any particular person or particular transaction from the application of a CNQ Requirement if, in the opinion of CNQ or the Market Regulator, the provision of such exemption:
- (a) would not be contrary to the provisions of the *Securities Act* (Ontario) and the rules and regulations thereunder;
 - (b) would not be prejudicial to the public interest or to the maintenance of a fair and orderly market; and
 - (c) is warranted after due consideration of the circumstances of the particular person or transaction

provided that only the Market Regulator may exempt a person or transaction from the application of UMIR.

3-105 General Prescriptive Power

CNQ may prescribe such other terms and conditions, as CNQ considers appropriate in the circumstances, related to:

- (a) trading in quoted securities; and
- (b) settlement of trades in quoted securities.

3-106 General Anti-Avoidance Provision

If, in the opinion of CNQ, a CNQ Dealer has organized its business and affairs for the purpose of avoiding the application of any CNQ Requirement, CNQ may apply such CNQ Requirement to the CNQ Dealer in the same manner as if such provision had directly applied to such CNQ Dealer.

3-107 Changes in CNQ Requirements

- (1) Each CNQ Dealer shall designate an employee to receive CNQ bulletins or other electronic notices from CNQ and shall ensure that the information contained in such notices is disseminated as required throughout the firm.
- (2) Upon sending of the bulletin or notice to the person designated in subsection (1), the firm shall be deemed to be in receipt of such notice and shall immediately comply with any change, suspension, withdrawal or revocation of a CNQ Requirement contained in such bulletin or notice.

RULE 4**TRADING OF QUOTED SECURITIES****TRADING ON THE CNQ SYSTEM****4-101 Access to CNQ System**

- (1) A CNQ dealer shall not permit any person to trade on the CNQ System unless such person is an Ontario registrant and
- (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 CNQ Rules as CNQ may determine from time to time.
- (2) A CNQ dealer shall ensure that each person entering orders on the CNQ System is trained in and understands these Rules.
- (3) A CNQ Dealer's trade supervision procedures adopted pursuant to Part 7.1 of UMIR shall include provisions to monitor trading on the CNQ System in compliance with these Rules.

4-102 General Rules Applicable to Order Entry

- (1) Each order entered on the CNQ System shall be subject to any special rule or direction issued by CNQ 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 CNQ 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 CNQ or the Market Regulator may from time to time require a specific or particular designation.
- (3) A CNQ Dealer entering a client order on CNQ System which is a distribution of a security of a CNQ Issuer being made in reliance on section 2.8 of Multilateral Instrument 45-102 Resale of Securities 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 CNQ Issuer on behalf of the seller on the CNQ.ca website within the time frame prescribed in section 2.8 of Multilateral Instrument 45-102 Resale of Securities.

4-103 Minimum Price Variation

The minimum quotation increment for securities of CNQ Issuers 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 securities of CNQ Issuers, 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 CNQ, 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 securities of CNQ Issuers 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 CNQ System, a CNQ 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 CNQ 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 agreed to in a foreign currency 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.
- (2) The CNQ 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 Issues with No Market Maker**

- (1) Any CNQ Dealer may enter
- (a) orders and
 - (b) crosses at any price between the bid and offer

into the CNQ System for a security for which no CNQ Dealer is acting as Market Maker.

- (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) Subject to Rule 4-107(2), only a designated Market Maker may enter
- (a) orders and
 - (b) crosses at any price between the bid and offer

into the CNQ System for a Market Maker security.

- (2) A CNQ Dealer other than a designated Market Maker may enter into the CNQ System
- (a) a Client Matching Order or
 - (b) a cross at any price between the bid and ask

for such securities after the opening of trading.

- (3) Orders (other than special terms orders, Client Matching Orders and crosses) may be entered on a fully-disclosed or partially disclosed basis.
- (4) 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.
- (5) CNQ Dealers other than a designated Market Maker shall, subject to Rules 4-107(2) and (6), direct orders to one or more designated Market Makers.
- (6) A CNQ Dealer may direct part or all of a Client Matching Order to a Market Maker for execution or entry into the CNQ System, including any unfilled portion of the order previously directly entered into

the CNQ System by the CNQ Dealer pursuant to Rule 4-107(2).

MARKET INTEGRITY RULES**4-108 Fair Prices**

A CNQ Dealer dealing in a CNQ 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 CNQ Dealer to enter into any transaction with a customer in any CNQ 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 CNQ securities.

(1) General Considerations

- (a) A dealer shall not excessively charge a customer on a transaction in a CNQ 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 CNQ 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, CNQ 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 on the CNQ system, 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

- (1) Subject to Rules 4-106, 4-107 and 4-114, the following orders may be entered after 8:00 a.m:
 - (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 quotations and orders that remain unfilled after the opening remain entered on the CNQ 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, including a Client Matching Order, entered into the CNQ System 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 CNQ System at that price.

MARKET MAKERS

4-112 Appointment of Market Makers

- (1) A CNQ Dealer wishing to make a market in a CNQ security shall file notice thereof with CNQ on the prescribed form and shall become obligated to perform the functions of a Market Maker upon approval by CNQ.
- (2) Subject to Rule 4-101, a CNQ 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 CNQ Dealer approved as a Market Maker must maintain a two-sided quotation for a period of not less than three consecutive calendar months.
- (4) A CNQ Dealer which ceases to act as a Market Maker in respect of the securities of a CNQ Issuer may not become a Market Maker in the securities of that CNQ Issuer for a period of 30 days.
- (5) CNQ may in its sole discretion designate a CNQ Dealer as a Market Maker in respect of a CNQ security where the CNQ Dealer's trading activities suggest the market will be better served by the CNQ 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 CNQ 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 CNQ 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 CNQ 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 CNQ Dealer (other than another designated Market Maker in the same security) if the CNQ 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 CNQ 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 CNQ or the Market Regulator of any unusual trading or order-entry patterns in a quoted 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 requirement as may be prescribed from time to time by CNQ or the Market Regulator.

(3) A Market Maker shall make such reports to the CNQ or Market Regulator as may be prescribed or requested from time to time by CNQ or the Market Regulator.

RULE 5

CLEARING AND SETTLEMENT OF TRADES

5-101 Ability to Clear and Settle

- (1) Each CNQ Dealer shall:
- (a) at the time of the entry to the CNQ System of an order for the purchase or sale of a security:
 - (i) be a participant of a Clearing Corporation, or
 - (ii) have entered into an arrangement for the clearing and settlement of trades with a person who is a participant of a Clearing Corporation and such arrangement shall be in a form which is satisfactory to a Clearing Corporation.

5-102 Clearing and Settlement

All trades in securities of CNQ Issuers shall be reported, confirmed and settled through the Clearing Corporation pursuant to the Clearing Corporation's rules and procedures, unless otherwise authorized or directed by CNQ.

5-103 Settlement of CNQ Trades

- (1) Trades in securities of CNQ Issuers shall settle on the third settlement day after the trade date, unless otherwise provided by CNQ or the parties to the trade by mutual agreement.
- (2) Notwithstanding Rule 5-103(1), unless otherwise provided by CNQ or the parties to the trade by mutual agreement:
- (a) trades on a when issued basis made:
 - (i) prior to the second Trading Day before the anticipated date of issue of the security shall be settled on the anticipated date of issue of such security, and
 - (ii) on or after the second Trading Day before the anticipated date of issue of the security shall settle on the third settlement day after the trade date,

provided if the security has not been issued on the date for settlement such trades shall be settled on the date that the security is actually issued;

(b) trades for rights, warrants and installment receipts made:

(i) on the third Trading Day before the expiry or payment date shall be for special settlement on the Settlement Day before the expiry or payment date;

(ii) on the second and first Trading Day before the expiry or payment date, shall be cash trades for next day settlement, and

(iii) on expiry or payment date shall be cash trades for immediate settlement and trading shall cease at 12:00 Noon (unless the expiry or payment time is set prior to the close of business in which case trading shall cease at the close of business on the first Trading Day preceding the expiry or payment),

provided selling CNQ Dealers must have the securities that are being sold in their possession or credited to the selling account's position prior to such sale;

(c) cash trades in quoted securities for next day delivery shall be settled through the facilities of the Clearing Corporation on the first settlement cycle following the date of the trade or, if applicable, over-the-counter, by noon of the first settlement day following the trade; and

(d) cash trades in quoted securities that have been designated by CNQ for same day settlement shall be settled by over-the-counter delivery no later than 2:00 p.m. on the trade day.

(3) Notwithstanding Rule 5-103(1), a CNQ Contract may specify delayed delivery which shall provide the seller with the option to deliver at any time within the period specified in the contract, and, if no time is specified, delivery shall take place at the option of the seller within thirty days from the date of the trade unless the parties by mutual agreement specify a delivery date more than thirty days from the date of the trade.

5-104 Disputes Regarding Trade Reports

(1) Where there is a dispute between CNQ Dealers regarding a daily trade report prepared by the Clearing Corporation, or any correction to a trade report, it shall be resolved by CNQ if the parties are unable to resolve the dispute.

(2) The electronic report of a trade as maintained by CNQ shall be taken as definitive evidence of a trade, and any dispute concerning the transaction record shall be resolved by a Decision of CNQ.

(3) Unless otherwise directed by CNQ, any trade recorded on the trade report shall stand if CNQ has not been informed of a dispute by the end of the Trading Day following the trade.

5-105 Unreasonable Delay in Settlement

CNQ may take such action as CNQ considers appropriate if, in the opinion of CNQ, settlement of a trade appears to be unreasonably or improperly delayed.

5-106 Compulsory Arbitration

(1) In the event of any dispute arising between CNQ Dealers regarding a CNQ Contract which has not been settled, such dispute shall be submitted to the decision of three arbitrators, who shall be employees of CNQ Dealers not employed by or affiliated with either Dealer involved in the dispute, selected as hereinafter provided, and the decision of the majority of such arbitrators shall be final and binding on all parties.

(2) The procedure for the nomination of arbitrators shall be as follows:

(a) The CNQ Dealer believing it to be the injured party shall deliver to the CNQ a written memorandum, stating in a summary way the matter in dispute and the redress the CNQ Dealer claims, and naming its arbitrator;

(b) CNQ shall forward a copy of such memorandum to the opposite party, who shall within two clear Business Days after receipt thereof file with CNQ a written memorandum containing its statement of the matter in dispute, and naming its arbitrator and CNQ shall forward a copy thereof to the opposite party and copies of both memoranda so filed to the arbitrators named, and they shall proceed within twenty-four hours after receipt of such memoranda to nominate a third arbitrator;

(c) If a party fails to name its arbitrator, CNQ may name one for the CNQ Dealer, and in the event of the two arbitrators named failing to nominate the third arbitrator within the time aforesaid the third arbitrator shall be appointed by CNQ.

(3) The three arbitrators so named shall forthwith give written notice to the parties of the time and place of their first sitting, which shall be held within two days after the appointment of the third arbitrator

and shall require them to be present and to produce any books, documents or papers respecting the matter at issue, and at such time and place, or at any other time and place to which they shall give written notice to the parties, the arbitrators shall hear the parties, shall make such inquiries and receive such evidences as they may deem necessary, and shall decide the subject matter in dispute and fix the cost of the reference and shall make their award and forward the same in writing to CNQ which shall give notice of the same to all the parties concerned.

- (4) The award of such arbitration shall be final and not subject to review or appeal, and shall be binding upon all parties concerned and the *Arbitration Act* (Ontario) shall not apply to any such arbitration.

No CNQ Dealer shall commence legal proceedings against another CNQ Dealer upon any contract or breach of contract with reference to a CNQ Contract unless and until the CNQ Dealer has given due notice thereof to CNQ and has received notice that CNQ has authorized the commencement of such proceedings.

5-107 Corners

- (1) If CNQ is of the opinion that a single interest or group has acquired such control of a quoted security that the quoted security cannot be obtained for delivery on existing CNQ Contracts except at prices and on terms arbitrarily dictated by such interest or group, CNQ may postpone the time for delivery on CNQ Contracts and provide that any CNQ Contract calling for delivery prior to the time established by CNQ shall be settled by the payment to the party entitled to receive such security of a fair settlement price.
- (2) If the parties to any CNQ Contract that is to be settled by payment of a fair settlement price cannot agree on the amount, CNQ shall fix the fair settlement price and the date of the payment after providing each party with an opportunity to be heard.

5-108 When Security Disqualified, Suspended or No Fair Market

- (1) CNQ may postpone the time for delivery on CNQ Contracts if:
- (a) the security is disqualified from quotation;
 - (b) trading is suspended in the security of a CNQ Issuer; or
 - (c) CNQ is of the opinion that there is not a fair market in the quoted security.
- (2) If CNQ is of the opinion that a fair market in the quoted security is not likely to exist CNQ may

provide that CNQ Contracts be settled by payment of a fair settlement price and if the parties to a CNQ Contract can not agree on the amount, CNQ shall fix the fair settlement price after providing each party with an opportunity to be heard.

5-109 Failed Trades in Rights, Warrants and Installment Receipts

- (1) Should fail positions in rights, warrants or installment receipts exist on the expiry or payment date, purchasing CNQ Dealers have the option of demanding delivery of the securities into which the rights, warrants or installment receipts are exercisable, any additional subscription privilege, and any subscription fee payable to a CNQ Dealer, that may be available, such demand shall be made before 4:00 p.m. on the expiry date.
- (2) Where a demand has been made in accordance with Rule 5-109(1), payment by purchasing CNQ Dealers for:
- (a) the rights, warrants or installment receipts shall be in accordance with normal settlement procedures, but delivery of the rights, warrants or installment receipts, as the case may be, is not required; and
 - (b) the securities into which the rights, warrants or installment receipts are exercisable and payment for any additional subscription privilege shall be made upon delivery of the securities.
- (3) Where a demand has not been made in accordance with Rule 5-109(1), settlement shall be in accordance with normal settlement procedures, but delivery of the rights, warrants or installment receipts, as the case may be, is not required.

5-110 Restrictions on CNQ Dealers' Involvement in Buy-ins

- (1) No CNQ Dealer shall knowingly permit any person on whose behalf a Buy-In Notice has been issued to fill all or any part of such order by selling the securities for the account of that person or an associated account and prior to selling to a buy-in, the CNQ Dealer, shall receive written or verbal confirmation that the order to sell is not being placed on behalf of the account of the person on whose behalf the Buy-In Notice was issued or an associated account.
- (2) A CNQ Dealer that issued a Buy-In Notice and the CNQ Dealer against whom a Buy-In Notice has been issued may supply all or a part of the quoted securities provided that the principal supplying the quoted securities is not:

- (a) the CNQ Dealer;
 - (b) a Related Person; or
 - (c) an associate of any person described in Rules 5-110(2)(a) or (b).
- (3) If quoted securities are supplied by the CNQ Dealer that issued the Buy-In Notice, delivery shall be made in accordance with the terms of the contract thus created, and the CNQ Dealer shall not, by consent or otherwise, fail to make such delivery.

lieu thereof, if a replacement certificate is not available.

- (2) **Where Certificates Delivered Not Acceptable to Transfer Agents** – A CNQ Dealer that has received delivery of a certificate that is not acceptable as good transfer by the transfer agent shall return it to the delivering CNQ Dealer, which shall make delivery of a certificate that is good delivery or of a certified cheque in lieu thereof.

5-111 Defaulters

- (1) If a CNQ Dealer against which a CNQ Contract is closed out under this Rule 5 fails to make payment of the money difference between the contract price and the buy-in price within the time specified or fails to conform to an award of arbitrators under Rule 2-114, the CNQ Dealer concerned shall become a defaulter, and notice of such default shall be provided by CNQ to each CNQ Dealer.
- (2) If a CNQ Dealer makes default in, or fails to meet, or admits or discloses an inability to meet, its liabilities or engagements to the Investment Dealers Association of Canada, the Canadian Investor Protection Fund or to the Clearing Corporation or to another CNQ Dealer or to the public, the CNQ Dealer concerned may be adjudged a defaulter and notice of such default shall be provided to each CNQ Dealer.
- (3) A CNQ Dealer failing to make delivery to the Clearing Corporation of securities and/or a certified cheque within the time limited by the rules governing the Clearing Corporation may be adjudged a defaulter.

5-112 Verified Statement of Outstanding CNQ Contracts

Where in connection with an audit of a CNQ Dealer, another CNQ Dealer has verified in writing a statement of outstanding CNQ Contracts with the CNQ Dealer, such verification shall be binding and any outstanding CNQ Contracts not disclosed on such statement shall be unenforceable between the CNQ Dealers.

5-113 Delivering CNQ Dealer Responsible for Good Delivery Form

- (1) **Delivering CNQ Dealer Responsible for Form of Certificate** – The delivering CNQ Dealer is responsible for the genuineness and complete regularity of the quoted security, and a certificate that is not in proper negotiable form shall be replaced forthwith by one which is valid and in prior negotiable form, or by a certified cheque in

RULE 6

REPORTS

6-101 Confirmation

In addition to the requirements under the *Securities Act* and the rules of the Investment Dealers Association of Canada, a confirmation to a client of a purchase or sale of a quoted security on the CNQ System shall indicate that the trade occurred on the CNQ System.

6-102 Records of Security Positions

A CNQ Dealer shall keep a record showing its security position from day to day and such record shall be kept in a manner as to enable the CNQ Dealer within a reasonable period to show the position on any prescribed date in all securities bought, sold or carried for or in any and all accounts, as well as the long and short position of each account in each security, the number of securities owing to or from the Clearing Corporation, the number of securities hypothecated, the number of securities in transfer and the number of securities on hand. The CNQ Dealer shall make such record available to CNQ or the Market Regulator upon request.

RULE 7

INVESTIGATIONS AND ENFORCEMENT

7-101 Investigations

CNQ may at any time, whether or not on the basis of a complaint or other communication in the nature of a complaint, investigate the conduct, business or affairs of any person under the jurisdiction of CNQ and CNQ may authorize any committee or person to conduct or to assist in the conduct of the investigation.

7-102 Obligations to Provide Information, Books, Records and Papers

Upon the request of CNQ, a CNQ Dealer or any person subject to the jurisdiction of CNQ shall forthwith:

- (a) provide any information, books, records and papers in the possession or control of the CNQ Dealer or the person that CNQ determines may be relevant to a matter under review or investigation and such information, books, records and papers shall be provided in such manner and form, including electronically, as may be required by CNQ;
- (b) allow the inspection of, and permit copies to be taken of, any books, records and papers in the possession or control of the CNQ Dealer or the person that CNQ determines may be relevant to a matter under review or investigation; and
- (c) provide a verbal, recorded statement or testimony at a time and place specified by CNQ or the Market Regulator on any issues that CNQ determines may be relevant to a matter under review or investigation in the following manner:
 - (i) in the case of a person other than an individual, by the statement or testimony of any appropriate officer, director or employee, or
 - (ii) in the case of an individual, by a statement or testimony in person.

7-103 Exchange and Provision of Information

CNQ may provide information and other forms of assistance for market surveillance, investigative, enforcement and other regulatory purposes to:

- (a) a recognized self-regulatory organization;
- (b) a self regulatory organization in a foreign jurisdiction;

- (c) a securities regulatory authority;
- (d) a securities regulatory authority in a foreign jurisdiction;
- (e) another market regulator; and
- (f) such other body or organization as may be prescribed.

7-104 Powers and Remedies

- (1) Where a person under the jurisdiction of CNQ has:
 - (a) contravened any CNQ Requirement; or
 - (b) engaged in any conduct, business or affairs that is unbecoming, inconsistent with just and equitable principles of trade or detrimental to the interests of CNQ or the public; or
 - (c) is not in compliance with any CNQ Requirement,

CNQ may impose any one or more of the following penalties or remedies against the person:

- (d) a reprimand;
- (e) a fine not to exceed the greater of:
 - (i) \$1,000,000, and
 - (ii) an amount equal to triple the financial benefit which accrued to the person as a result of committing the violation;
- (f) the suspension as a CNQ Dealer for the period and upon the terms and conditions, if any, determined by CNQ or the Market Regulator;
- (g) the revocation, suspension or amendment of the terms and conditions of a previously granted access as a CNQ Dealer;
- (h) the termination of the person's status as a CNQ Dealer; and
- (i) any other penalty or remedy determined to be appropriate under the circumstances.

- (2) Fines shall be paid to CNQ.

7-105 Interim Orders

- (1) Where CNQ
 - (a) determines that a person under the jurisdiction of CNQ has engaged in or may engage in any course of conduct, has carried on or otherwise acted in a manner that is detrimental to the interests of CNQ or the public; and
 - (b) considers it necessary for the protection of the public interest,

CNQ may without notice of a hearing impose one or more of the following interim orders against the person:

- (c) the suspension as a CNQ Dealer or any of the rights and privileges of a CNQ Dealer for the period and upon the terms and conditions, if any, determined by CNQ;
- (d) the imposition of any terms and conditions determined by CNQ that must be satisfied by a CNQ Dealer to continue as a CNQ Dealer;
- (e) the imposition of any terms and conditions on other persons under the jurisdiction of CNQ relating to the continuance of any business relationships by them with the person against which the interim order is made; or
- (f) the imposition of any other terms or conditions that CNQ determines to be appropriate.

- (2) An interim order issued by CNQ pursuant to Rule 7-105(1) expires 15 days after the date on which the interim order was made unless:

- (a) a hearing is commenced within that period of time to confirm or set aside the interim order; or
- (b) any party against which the interim order is made consents to an extension of the interim order until a hearing of the matter is held.

7-106 Responsibility of CNQ Dealers and of Partners or Directors of CNQ Dealers

- (1) A CNQ Dealer may be found liable by CNQ for the conduct, business or affairs of Related Person and subject to any penalties as if it had engaged in that conduct, business or affairs.

(2) Notwithstanding Rule 7-106(1), the imposition of any penalties against a CNQ Dealer does not prevent the imposition by CNQ of any penalties against the Related Person.

7-107 Responsibility of Partners and Directors of CNQ Dealers

(1) Any partner or director of a CNQ Dealer may be found liable by CNQ for the conduct, business or affairs of the CNQ Dealer if such person had responsibility for same and subject to any penalties as if such person had engaged in that conduct, business or affairs.

(2) Notwithstanding Rule 7-107(1), the imposition of any penalties against any partner or director of a CNQ Dealer does not prevent the imposition by CNQ of any penalties against the CNQ Dealer.

7-108 Responsibility of Supervisors

(1) A Related Person who has authority over, supervises or is responsible to the CNQ Dealer for any Related Person may be found liable by CNQ for the conduct, business or affairs of the supervised Related Person or employee and subject to any penalties as if such person had engaged in that conduct, business or affairs.

(2) Notwithstanding Rule 7-108(1), the imposition of any penalties against a supervising Related Person does not prevent the imposition by CNQ of any penalties against the supervised Related Person.

7-109 Assessment of Expenses

(1) Upon the conclusion of any proceedings commenced pursuant to the Rules Governing the Practice and Procedure of Hearings, CNQ or the Hearing Committee shall assess against a person under the jurisdiction of CNQ any one or more of the following expenses incurred by CNQ as a result of the proceedings:

- (a) recording or transcription fees;
- (b) expenses of preparing transcripts;
- (c) witness fees and reasonable expenses of witnesses;
- (d) professional fees for services rendered by expert witnesses, legal counsel or accountants other than full-time CNQ staff;
- (e) expenses of staff time incurred by CNQ or its agents;
- (f) travel costs;

(g) disbursements; or

(h) any other expenses determined to be appropriate under the circumstances.

(2) Where CNQ conducts an investigation of a complaint or other communication in the nature of a complaint that was made by a person under the jurisdiction of CNQ and determines that the complaint or other communication in the nature of a complaint was unfounded and made in bad faith, CNQ may assess the expenses incurred by CNQ or its agent as a result of the investigation against that person.

7-110 Exercise of Powers by Market Regulator

(1) The Market Regulator has all of the rights and may exercise all of the powers of CNQ set out in this section, except as otherwise agreed between CNQ and the Market Regulator.

(2) Any investigation, examination and disciplinary hearing (both interim and final) by the Market Regulator shall be conducted in accordance with the procedures established by the Market Regulator.

RULE 8

APPLICATION OF UMIR

8-101 The provisions of UMIR and any MR Policies, as amended from time to time, apply to trading on the CNQ System and form part of CNQ Requirements.

RULE 9

REPORTING TRADES

9-101 Secondary Market Options

- (1) A CNQ Dealer receiving an option to purchase or sell a quoted security shall report the following details of the option to CNQ
 - (a) the trading symbol of the security;
 - (b) the number of units of the security underlying the option;
 - (c) whether the option is a put or call option;
 - (d) the identification of the party granting the option;
 - (e) the exercise price; and
 - (f) such other information as may be prescribed from time to time.

in the format prescribed from time to time by the end of the Business Day on which the option is received.
- (2) If the option is granted after the close of trading, the Dealer shall report prior to the opening of trading on the following Business Day.
- (3) A CNQ Dealer shall immediately report an exercise of all or part of the option to CNQ providing the following information required in Rule 9-101.
 - (a) the trading symbol of the security;
 - (b) the number of units of the security purchased or sold;
 - (c) the purchase or sale price; and
 - (d) such other information as may be prescribed from time to time.
- (4) The CNQ Dealer shall pay the reporting fee prescribed from time to time.

RULE 10

SALES PRACTICES

10-101 A CNQ Dealer shall not conduct nor permit a Related Person of the CNQ Dealer to conduct sales practices which would be contrary to the public interest or the best interests of its, his or her clients.

10-102 Without limiting the foregoing, no CNQ Dealer or Related Person of a CNQ Dealer shall

- (a) use high pressure sales tactics in order to induce a person to buy, sell or hold a security of a CNQ Issuer;
- (b) take advantage of a person's inability or incapacity to reasonably protect his or her own interest because of physical or mental infirmity, ignorance, illiteracy, age or inability to understand the character, nature or language of any matter relating to a decision to buy, sell, or hold a security of a CNQ Issuer;
- (c) impose terms or conditions that make a transaction in a CNQ Issuer inequitable;
- (d) make any statement which the CNQ Dealer or Related Person knows or reasonably ought to know is false or misleading to induce a client to buy sell or hold a security of a CNQ Issuer; or
- (e) employ a tiered or other sales force structure that purports to relieve a person recommending an order directly or indirectly from a client from the obligation to ensure that the trade is suitable for that client.

10-103 A CNQ Dealer shall not reduce or retract all or any portion of the sales commission paid or payable to a registered representative in connection with a trade in a security of a CNQ Issuer in the event the client to whom the securities were traded resells those securities.

10-104 When recommending any trade with a client in a security of a CNQ Issuer, a CNQ Dealer or the registered representative shall disclose to the client, orally or in writing, the following:

- (a) if the CNQ Dealer is acting as principal (or as agent for another CNQ Dealer acting as principal);
- (b) if the CNQ Dealer will concurrently acquire the securities to supply to the customer in a riskless principal transaction, the CNQ Dealer's cost of acquisition; and

- (c) if the security being traded does not have a market maker or the CNQ Dealer is the sole market maker.

10-105 When recommending the first trade with a client in a security of a CNQ Issuer, a CNQ Dealer or the registered representative shall provide a written risk disclosure statement to the client, addressing the following:

- (a) the potential difficulty of reselling the securities of CNQ Issuers;
- (b) the potential price volatility inherent in the securities of CNQ Issuers;
- (c) the potential susceptibility of securities of CNQ Issuers to manipulation; and

and the client shall acknowledge receipt of the risk disclosure statement in writing prior to the execution of the first order.

10-106 In this rule, whether a trade is recommended shall be determined with reference to By-law 1300 of the Investment Dealers Association of Canada and its related policy and guidelines.