

POLICY STATEMENT

Q-22

DISCLOSURE DOCUMENT FOR COMMODITY FUTURES CONTRACTS, FOR OPTIONS TRADED ON A RECOGNIZED MARKET AND FOR EXCHANGE-TRADED COMMODITY FUTURES OPTIONS

1. In the case of commodity futures contracts, the disclosure document prescribed by section 67 of the Act must present the information prescribed by Schedule 1.

2. In the case of options traded on a recognized market with the exception of commodity futures options, the disclosure document prescribed by section 67 of the Act must reproduce the information prescribed by Schedule 2.

3. In the case of exchange-traded commodity futures options, the disclosure document prescribed by section 67 of the Act must reproduce the information prescribed by Schedule 3.

SCHEDULE I

INFORMATION DOCUMENT RESPECTING OPTIONS AND FUTURES CONTRACTS NEGOTIABLE ON AN ORGANIZED MARKET

Item 1:
Warnings

The following warnings must appear on the first page of the information document:

(1) "No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence."

(2) "This document contains condensed information respecting the securities described. Additional information may be obtained from your dealer."

Item 2:
Corporate name

State on the first page the corporate name and address of the head office of the person who sells the options and who has drawn up this document.

Item 3:
Market negotiating options

Identify on the first page the markets on which the options offered are negotiated.

Item 4:
Description of the options

Describe the principal characteristics of the options.

Item 5:
Rules for negotiation

Describe the principal rules for negotiation of options.

Item 6:
Objectives and risks

1. Describe the principal strategies that may be used for buy and sell options.

2. Describe the risks involved in transactions on options, and particularly those involved in selling options short.

Item 7:
Secondary market

Indicate the operation of the market and the possibility of a buyer's or a seller's liquidating his position.

Item 8:
Taking up an option

Indicate briefly the procedures for taking up an option and what happens when an option expires without being taken up.

Item 9:
Tax consequences

Indicate briefly the tax consequences of the various types of transactions on options.

Item 10:
Commissions

Indicate to which transactions brokerage fees apply.

Item 11 :
Futures contracts

In the case of negotiable futures contracts pertaining to securities or treasury bond futures contracts, give the information required by Items 1 to 7, 9 and 10 *mutatis mutandis*.

Describe briefly the method of liquidating contracts and what happens if the contract is not liquidated before the delivery date.

SCHEDULE 2

DISCLOSURE DOCUMENT FOR RECOGNIZED MARKET OPTIONS

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 dealer.

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 sets forth 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 dealer. Information on investment strategies and possible uses of options may also be obtained from your dealer.

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 which, for the purposes of this disclosure statement only, are referred to as "recognized markets".

Nature of an option

An option is a contract entered into on a recognized market between a seller (sometimes known as a writer) and a purchaser where all the terms and conditions of the contract (called the "specifications"), other than the consideration (called 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 subjects the seller to an obligation to honour 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 dealers. 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 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 which 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 irrespective 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 dealer through whom the option was purchased. A purchaser should ascertain in advance from his dealer the latest date on which he may give such notice to his dealer. An European style option may only be exercised by the purchaser on a specified date. Upon receiving an exercise notice from the purchaser's dealer, the clearing corporation assigns it to a member which may re-assign to it 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 delivery, pay the positive difference between the aggregate exercise price and the settlement value of the underlying interest (in the case of both a call and a put).

A purchaser of an option which expires loses the premium paid for the option and his transaction costs. The seller of an option which expires will have as his gain the premium received for the option less his 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 and 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

Margin requirements

Prior to trading options, a seller must deposit with his dealer cash or securities as collateral (called "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 dealer.

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 options positions previously established.

Commission charges

Commissions are charged by dealers 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 point in time determined by the rules of the recognized market. This specified point in time could vary with the option. For example, the specified point in 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 which 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 dealer:

- his investment needs and objectives;
- the risks he is prepared to take;
- the specifications of options he may wish to trade;
- commission rates;
- margin requirements;
- any other matter of possible concern.

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

SCHEDULE 3

DISCLOSURE STATEMENT FOR EXCHANGE-TRADED COMMODITY FUTURES OPTIONS

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 exchange-traded commodity futures 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 "**Certain Risks factors**" and **"Additional Information**".

Date:

Name and address of broker: Interactive Brokers Canada Inc.
1800 McGill College Avenue
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Montreal, Quebec H3A 3J6
Canada

SUMMARY DISCLOSURE STATEMENT WITH RESPECT TO EXCHANGE-TRADED COMMODITY FUTURES OPTIONS

Part I

Introduction

This Summary Disclosure Statement describes in general terms the nature, the requirements for and the risks involved in the purchase or sale of Commodity Futures Options in transactions on a Commodity Futures Exchange, which transactions are cleared through the facilities of the appropriate clearing house.

Generally, a Commodity Futures Option (option) is a contract which gives the Holder or Purchaser, for a consideration, the right to buy or sell a specific futures contract (the "Underlying Futures Contract") at a stated Exercise Price and within a specified period of time. The consideration is the Premium that is paid for the purchase and sale of an option, and this Premium is determined by agreement of the parties in a transaction on the floor of a Commodity Futures Exchange. The Premium is paid by the Purchaser ("Holder") and is received by the Seller ("Writer") of an option. No portion of the Premium is retained by the exchange on which the option transaction is executed nor by the clearing house through whose facilities the transaction is cleared. In addition, buyers and sellers of options pay transaction costs, which may include commissions, fees and other charges that may be incurred in connection with each option transaction.

Before you trade commodity futures options, you should carefully read this statement. This is important because of the particular risks involved.

If you plan to buy a commodity futures option, you should realize that you will pay both a premium and a commission. The premium compensates the seller or writer of the option for the risks he assumes; the commission compensates the dealer who handles the transaction for you. Accordingly, if you are to avoid a loss, the price of the underlying futures contract must - before the expiry of the option - rise above or fall below the exercise price, as the case may be, sufficiently to absorb both the premium and the commission.

If you plan to sell a commodity futures option, you should realize that you will be obligated to buy or sell the underlying futures contract should the purchaser decide to exercise the option. If you write an option and you do not have a corresponding long or short position in the underlying futures contract, there is no limit to your possible loss, which is determined entirely by the amount of the rise or decline in the price of the underlying futures contract.

No securities commission or similar authority in Canada has in any way passed upon the merits of commodity futures options described herein and any representation to the contrary is an offence.

This is not the only part of this Disclosure Statement that is important. You should study carefully Part II of this Disclosure Statement and ask any questions about it that may not be clear to you before you enter your first transaction.

Part II

Description of commodity futures options trading

Contents

Glossary of Terms
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Glossary of terms

1. **Commodity Futures Exchange:** an Association or organization, whether incorporated or otherwise, operated for the purpose of providing the physical facilities necessary for the trading of commodity futures contracts or commodity futures options.

2. **Exchange-Traded Commodity Futures Options:** the Commodity Futures Options discussed in this Disclosure Statement are Call Options and Put Options ("Calls" and "Puts") which are traded on one or more Commodity Futures Exchanges. Each Exchange-Traded Options is distinguished by the Underlying Futures Contract, Exercise Price, Expiration Date and whether the option is a Call or a Put.

(a) **Call option:** a contract which gives the Holder the right to buy and the Writer the obligation to sell the Underlying Futures Contract at a stated Exercise Price on or before the Expiration Date of the option.
(b) **Put Option:** a contract which gives the Holder the right to sell and the Writer the obligation to buy the Underlying Futures Contract at a stated Exercise Price on or before the Expiration Date of the option.
(c) **Underlying Futures Contract**: the Commodity Futures Contract, traded on a Commodity Futures Exchange, which may be purchased or sold upon exercise of a Commodity Futures Option.
(d) **Exercise Price:** the stated price at which the Holder may purchase from or sell to the Writer the Underlying Futures Contract upon exercise of a Commodity Futures Option. It is also referred to as the "Strike Price".
(e) **Premium:** the amount agreed upon between the parties for the purchase and sale of a Commodity Futures Option.
(f) **Expiration Date:** the last day when a Commodity Futures Option may be exercised by the Holder.
(g) **Holder:** the purchaser of a Call or Put Option. He is said to have a long position.(h) Writer: The seller of a Call or Put Option. He is said to have a short position. 3. Type of Option: a Call or a Put Option.

4. **Class of Options:** all Commodity Futures Options of the same type having the same Underlying Futures Contract.

5. **Series of Options:** all Commodity Futures Options of the same class having the same Exercise Price and Expiration Date.

6. **Long Position:** to have a long position with respect to a Commodity Futures Option means to have the right to exercise the option on or before the Expiration Date. To have a long position with respect to an Underlying Futures Contract means to be under an obligation to take delivery of the underlying commodity.

7. **Short Position:** to have a short position with respect to a Commodity Futures Option means to be under an obligation to buy or sell the underlying Futures Contract upon exercise of the option. To have a short position with respect to an Underlying Contract means to be under an obligation to make delivery of the underlying commodity.

8. Types of Option Transactions:
(a) **Opening Purchase Transaction:** a transaction in which a person purchases a Commodity Futures Option and thereby initiates or increases a long position.
(b) **Opening Sale Transaction:** a transaction in which a person sells or writes a Commodity Futures Option and

thereby initiates or increases a short position.
(c) **Closing Purchase Transaction:** a transaction in which a person with a short option position liquidates the position by buying an option of the same series as the option previously sold or written. Such a transaction is also referred to as an "Offsetting Transaction".
(d) **Closing Sale Transaction:** a transaction in which a person with a long position liquidates the position by selling an option of the same series as the option previously purchased. Such a transaction is also referred to as an "Offsetting transaction.

Nature of Commodity Futures Options

When you trade a Commodity Futures Option (option), you are entering into an agreement whereby you acquire the right (if you are a Holder) or the obligation (if you are a Writer) to buy or sell the Underlying Futures Contract at a stated Exercise Price on or before a specified Expiration Date. The Holder of the option pays a consideration called "Premium" to acquire the right, whereas the Writer of the option receives the Premium as compensation for undertaking the obligation.

There are two types of options - the Call Option and the Put Option. A Call Option gives the Holder the right to buy and the Writer the obligation to sell the Underlying Futures Contract. A Put Option on the other hand gives the Holder the right to sell and the Writer the obligation to buy the Underlying Futures Contract.

With the exception of the Premium, all the other terms of Commodity Futures Options are standardized and determined by the Commodity Futures.

Exchange on which they are traded, particularly the Exercise price and Expiration Date. The Premium is not fixed and is determined on an exchange's auction 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 Futures Contract, and the price volatility and other characteristics of the Underlying Futures Contract.

As the Holder of an option, you may exercise your right to buy or sell the Underlying Futures Contract at any time before the Expiration Date of the option. If you exercise a Call Option, you will buy the Underlying Futures Contract, thereby assuming a long position in the futures contract market. If you exercise a Put Option, you will sell the Underlying Futures Contract, thereby assuming a short position in the futures contract market.

As the Writer of an option, you may be assigned an exercise notice at any time prior to the Expiration Date of the option, in which event you will be obligated to buy or sell the Underlying Futures Contract. If the exercise notice involves a Call Option that you have written, you will be required to sell the Underlying Futures Contract, thereby assuming a short position in the futures contract market. If the exercise notice involves a Put Option that you have written, you will be required to buy the Underlying Futures contract, thereby assuming a long position in the futures contract market.

Whether you are a Holder or a Writer of an option, if as a result of an exercise of the option you assume a position in the Underlying Futures Contract, you will be subject to the margin requirements for and all of the risks associated with futures contract trading. Before you trade Commodity Futures Options, therefore, you should understand the procedures for and the consequences resulting from the exercise of an option. These are described in more detail under "Exercising Commodity Futures Options".

The Holder of an option is not obligated to exercise his option if it is not profitable for him to do so, in which case the option expires worthless and he loses the Premium he paid for it. If the Holder does not exercise his option, the Writer's obligation under the option ceases upon the expiry of the option, and he profits from the transaction because he retains the premium paid by the Holder.

Instead of exercising his option, however, the Holder may choose to offset his position prior to the Expiration Date of the option if it is profitable for him to do so. He can do this by executing a closing sale transaction. The Writer of an option may avoid his obligation by offsetting his position at any time prior to the expiry of the option. He can do this by executing a closing purchase transaction. Thus, the Holder of a Call Option may liquidate his position by selling a Call Option of the same series as the one previously purchased, whereas the Writer of a Call Option offsets his position by buying a Call Option of the same series as the one previously sold. The

Holder of a Put Option liquidates his position by selling a Put Option of the same series as the one previously purchased, whereas the Writer of a Put Option offsets his position by buying a Put Option of the same series as the one previously sold.

Although Commodity Futures Options trading has this offsetting feature which can, in some way, limit the risks of trading options, there may be certain circumstances under which it may not be possible for you to offset your option position. These situations and their possible adverse effects are described under "**Mechanics of Commodity Futures Options Trading**".

Certain Risk Factors

Commodity Futures Options are speculative. Consequently, only risk capital should be used to trade them. Before a person purchases or writes an option, he should inform himself of the risks involved and should determine whether such a transaction is appropriate for him in light of his financial situation and investment objectives.

Since the value of a Commodity Futures Option depends largely upon the likelihood of favourable price movements in the Underlying Futures Contract in relation to the Exercise Price during the life of the option, historical price and volume information concerning the Underlying Futures Contract may be significant in evaluating the risks of an option transaction. Historical price and volume information are available through various financial publications and in the financial press. Notwithstanding the availability of such information, however, specific market movements in the price of the Underlying Futures Contract cannot be accurately predicted.

Some of the risks involved in trading Commodity Futures Options are summarized below:

1. The purchaser of a Call or Put option runs the risk of losing his entire investment - that is, the Premium paid for the option plus all transaction costs - in a relatively short period of time.

With respect to the purchase of a Call Option, should the market price of the Underlying Futures Contract not rise above the Exercise Price, the Call Option becomes entirely unprofitable at its expiration. Furthermore, if for some reason the Call Option cannot subsequently be sold on an exchange (see "**Mechanics of Commodity Futures Options Trading**"), the value of the Underlying Futures Contract must move sufficiently above the Exercise Price to cover the Premium and transaction costs in order that the option can be exercised at a profit. The risk of purchasing a Call Option is particularly great where the Exercise Price is considerably above the market price of the Underlying Futures Contract, or where the option is approaching its Expiration Date. In these circumstances, there is less likelihood of the Call Option increasing in value so as to make it profitable for the Holder to exercise the option or effect an offsetting transaction. Anyone purchasing such a Call Option must expect to lose the amount paid for it and related transaction costs.

With respect to the purchase of a Put Option, should the market price of the Underlying Futures Contract not decline below the Exercise Price, the Put Option becomes entirely unprofitable at its expiration. Furthermore, if for some reason the Put Option cannot subsequently be sold on an exchange (see "**Mechanics of Commodity Futures Options Trading**") the value of the Underlying Futures Contract must move sufficiently below the Exercise Price to cover the Premium and transaction costs in order that the option can be exercised at a profit. The risk of purchasing a Put Option is particularly great where the Exercise Price is considerably below the market price of the Underlying Futures Contract, or where the option is approaching its Expiration Date. In these circumstances, there is less likelihood of the Put Option increasing in value so as to make it profitable for the Holder to exercise the option or effect an offsetting transaction. Anyone purchasing such a Put Option must expect to lose the amount paid for it and related transaction costs.

Accordingly, you should not commit any amount of money to the purchase of Calls or Puts unless you are able to withstand the loss of the entire amount so committed.

2. The Writer of a Call Option who does not have a long position in the Underlying Futures Contract is subject to a risk of loss should the price of the Underlying Futures Contract increase.

He may be required to sell the Underlying Futures Contract at an Exercise Price which could be less than the price he must pay to acquire the Underlying Futures Contract.

This type of Call Option writing is extremely risky, and a person engaging in such Call Option transactions could incur large losses. Therefore, only sophisticated investors having substantial capital should engage in this type of transaction. Even such persons must expect to incur substantial losses in many of these Call writing transactions.

3. The Writer of a Call Option who has a long position in the Underlying Futures Contract deliverable upon exercise of the option is subject to the full risk of his underlying position in case of a decline in the price of the Underlying Futures Contract, although he has limited protection against such risk to the extent of the Premium received in writing the Call Option. In exchange for the Premium, however, and as long as he remains the Writer of a Call Option, he gives up the opportunity for gain resulting from an increase in the price of the Underlying Futures Contract above the Exercise Price because of the likelihood that the Call Option will be exercised by the Holder.

4. The Writer of a Put Option who does not have a short position in the Underlying Futures Contract is subject to risk of loss should the price of the Underlying Futures Contract decline. He may be required to buy the Underlying Futures Contract at an Exercise Price which could be more than the market price of the Underlying Futures Contract.

This type of Put Option writing is extremely risky, and a person engaging in such Put Option transactions could incur large losses. Therefore, only sophisticated investors having substantial capital should engage in this type of transaction. Even such persons must expect to incur substantial losses in many of these Put writing transactions.

5. The Writer of a Put Option who has a short position in the Underlying Futures Contract is subject to the full risk of his underlying position in case of a rise in the price of the Underlying Futures Contract, although he has limited protection against such risk to the extent of the Premium received in writing the Put Option. In exchange for the Premium, however, and as long as he remains the Writer of a Put Option, he gives up the opportunity for gain resulting from a decline in the market price of the Underlying Futures Contract because of the likelihood that the Put Option will be exercised by the Holder.

It should be emphasized that the Writer of a Call or Put Option has no control over when he might be required to respond to an exercise notice. Indeed, he must assume that he may be assigned an exercise notice at any time when the exercise of a Call or Put Option is advantageous to the Holder and that in such circumstances the Writer may incur a loss.

The risks of Commodity Futures Options transactions described above may be moderated to the extent that a market in particular options is available on a Commodity Futures Exchange. This permits Holders and Writers in the appropriate circumstances to limit their losses by closing out or offsetting their positions prior to the time trading in these options ceases. Remember, however, that an offset market may not exist for a particular option under certain circumstances. This possibility should always be taken into account in considering the risks of Commodity Futures Options trading.

Mechanics of Commodity Futures Options Trading

The rules of the Commodity Futures Exchange on which a Commodity Futures Option is listed govern the trading of such option. Under such rules, options can be bought and sold only on the trading floor of the exchange. Furthermore, the trading mechanisms established by such rules are designed to provide for competitive execution of buy and sell orders, and to make available to buyers and sellers a continuous market in which an option purchased can later be sold or an option sold can later be liquidated by an offsetting purchase.

Although each exchange's trading mechanisms are designed to provide market liquidity for the options traded on that exchange, it must be recognized that there can be no assurance that a liquid offset market on the exchange will exist for any particular option, or at any particular time, and for some options, no offset market on that exchange may exist at all. The following are among the reasons why it may be impossible to offset an option position: (i) there may be insufficient trading interest in certain options; (ii) the exchange may have imposed

restrictions on certain options; (iii) trading halts, suspensions or other restrictions may be imposed; (iv) unusual or unforeseen circumstances may interrupt normal exchange operations; (v) one or more exchanges could, for regulatory of other reasons, decide or be compelled at some future date to discontinue or restrict trading of options. In such circumstances, offsetting trades cannot be made although existing options will continue to be exercisable in accordance with their terms.

In any of the foregoing events, it might not be possible to effect offsetting transactions in particular options. Under those circumstances, the market price of the Underlying Futures Contract must either rise above or fall below (as the case may be) the Exercise Price of the option by an amount in excess if the Premium and other costs incurred in the purchase of the option in order for it to be profitable. But in order for the Holder of an option to actually realize a profit, he would have to exercise the option, in which event he would have to comply with the margin requirements for the Underlying Futures Contract. On the other hand, the Writer of the option cannot do anything about his option position because he does not have a right to exercise. His obligation under the option cannot be terminated until it expires and the Holder has not exercised his right.

Exchanges may also have rules which limit the amount of price fluctuation for commodity futures contracts and Commodity Futures Options during a single trading day. It should be emphasized, however, that not all futures contracts and not all Commodity Futures Options are subject to such limits. For those that are subject to daily limits, the limits may be removed at some point prior to the respective delivery month or Expiration Date. For those that are not subject to daily limits, exchange rules may provide for the imposition of limits under certain circumstances.

You should fully understand provisions relating to daily limits which are applicable to specific Commodity Futures Options and their related Underlying Futures Contracts.

Where daily limits are in effect, they establish the maximum amount that the Premium for an option may vary from the previous day's price. Once the daily limit has been reached in a particular option, no trades may be made at a price beyond the limit. Positions in the option contracts can be opened or closed out only if traders are willing to offset trades at or within the limit during the period for trading on such day. The daily limit rule does not limit losses which might be suffered by a client, because it may prevent the liquidation of unfavourable positions. Also, option prices may move the daily limit for several consecutive trading days, thus preventing liquidation and subjecting a person with a Commodity Futures Option position to possible substantial losses.

Margin Requirements

Margins with respect to Commodity Futures Options apply only to Writers of options. The Holders have already paid a Premium in order to acquire the right to buy or sell the Underlying Futures Contract and, since Holders do not need to maintain margins, they have no further financial obligation. Writers of options, on the other hand, have accepted a Premium in return for taking on the obligation to buy or sell the Underlying Futures Contract and, therefore, must maintain margins at rates set by the Commodity Futures Exchange or at such higher rates as may be required by the dealer. In addition, Writers of options may be required to pay additional margin in the event of adverse market movement.

The margin requirements of the various Commodity Futures Exchanges may differ significantly. In addition, they are subject to change at any time, and such changes may even apply retroactively to options positions previously established.

Before you consider selling or writing a Commodity Futures Option, therefore, you should ask your dealer for information on specific margin requirements and assure yourself that you have sufficient available capital to meet increases in margin requirements, should such increases occur.

Exercising Commodity Futures Options

At any time on or before the Expiration Date of a Commodity Futures Option, the Holder may exercise the option and assume a long position (in case of a Call Option) or a short position (in case of a Put Option) in the Underlying Futures Contract at the stated Exercise price. In order to do so, the Holder notifies his dealer who, in turn, deposits an exercise notice with the clearing house. The Holder of an option should ascertain from his dealer what advance notice is required to enable the dealer to deposit the required exercise notice with the

clearing house on or before the Expiration Date. The clearing house forwards this notice to a clearing member who has a short position in that particular option and who is selected in accordance with clearing house rules. Such clearing member then selects, in accordance with its own rules, a particular Writer who must then sell (in case of a Call Option) or buy (in case of a Put Option) the Underlying Futures Contract. Both the Holder and the Writer of the option assume a long or short position, as the case may be, in the underlying Futures Contract, and both will be subject to the margin requirements for and all of the risks associated with futures contracts trading, unless they already hold an opposite long or short position in the Underlying Futures Contract in which case there would be an automatic offset.

Having acquired a position (whether long or short) in the Underlying Futures Contract, the Holder or the Writer may become obligated to make or take delivery, as the case may be, of the commodity represented thereby unless before the delivery month provided for in the futures contract, they elect to offset their position by buying or selling the same futures contract with the same delivery month. In that event, they will be obligated to pay their respective dealers a "round-turn" commission. If, on the other hand, they elect to make or take delivery of the underlying commodity, they may be required to pay additional costs incidental to the delivery process. In the meantime, as long as the Holder or the Writer maintains his position in the Underlying Futures Contract, he will be required to maintain margin deposit at rates set by the Commodity Futures Exchange or at such higher rates as the dealer may require.

Expiration Date of Commodity Futures Options

The Expiration Date of a Commodity Futures Option is the last day on which the Holder can exercise his option by purchasing (in case of a Call Option) or selling (in case of a Put Option) the Underlying Futures Contract at the stated Exercise Price. If the Holder does not wish to exercise his option but believes that it would be profitable for him to effect an offsetting transaction, he should advise his dealer well in advance of the last trading day for that particular option so that the dealer will have sufficient time within which to execute his order. Similarly, if the Writer believes that it would be profitable for him to effect an offsetting transaction, he should give instructions to his dealer well ahead of the last trading day.

The last day of trading for a Commodity Futures Option is usually the date prior to the Expiration Date. Both the last day of trading and the Expiration Date are indicated on the contract specifications for each Commodity Futures Option, and they often vary among the different options. You should always inform yourself about these terms of an option and, in particular, you should determine your dealer's policy with respect to the cut-off date prior to the last day of trading for each option during which they would accept orders to execute offsetting transactions. These cut-off dates are important, especially if you are considering offsetting your option position at a time close to the Expiration Date. If you miss the cut-off date established by your dealer, it might be extremely difficult for you to liquidate your position.

If the Holder chooses not to exercise his option or if, for some reason, he is unable to effect an offsetting transaction, the option will lapse on the Expiration Date and the Holder loses his right under the option. In that event, the Writer's obligation under the option is terminated.

Clearing

In order to assure the performance of obligations under Commodity Futures Options, traders on the Commodity Futures Exchanges are required to use the facilities of the appropriate clearing house to which all trades in options are reported daily following the close of each trading session and are marked to the market for daily cash settlement. Members of the clearing house are also members of the corresponding Commodity Futures Exchange, but not all members of the exchange are clearing members.

When an option trade has been cleared with the clearing house, the contractual ties between the original Holder and the Writer of the option are severed. The clearing house becomes the principal liable to each clearing member who is party to such trade. Clearing members are themselves contractually obligated to the clearing house vis-à-vis the Holders or Writers they represent. Accordingly, the aggregate obligations of the clearing house to clearing members who represent Holders of options are balanced by the aggregate obligations which clearing members who represent Writers of options owe to the clearing house.

Currency

Whether you plan to buy or sell a Commodity Futures Option, you should realize that some transactions are carried out in foreign currencies. Accordingly, if you are using Canadian Dollars in your transactions, you are exposed to the risks arising from the price fluctuations of foreign currencies in the foreign exchange market.

Commission and other transaction costs

As the Holder of a Commodity Futures Option, in addition to the Premium that you pay for acquiring the option, you will pay commission to the dealer who purchased the option for you. If you offset your position through a closing sale transaction, you pay another commission. If you exercise your option and assume an opening long (in case of a Call Option) or short (in case of a Put Option) position in the Underlying Futures Contract, you will not be required to pay commission. However, when you subsequently close out your position in the Underlying Futures Contract, then you will pay your dealer a "round-turn" commission.

As the Writer of a Commodity Futures Option, you only pay commission to the dealer who sold the option for you. If you offset your position through a closing purchase transaction, you pay another commission. If the option is exercised against you and you assume an opening short (in case of a Call Option) or long (in case of a Put Option) position in the Underlying Futures Contract, you will not be required to pay commission. However, when you subsequently close out your position in the Underlying Futures Contract, you will then pay your dealer a "round-turn" commission.

Commission rates vary among different dealers. In addition, there may be other charges and fees involved in each option transaction apart from the commission. You should ask your dealer about all the costs that may be incurred in options transactions and take them into account in considering whether or not to trade Commodity Futures Options.

Exchange and clearing house

The Commodity Futures Options described in this Disclosure Statement are traded on Commodity Futures Exchanges which are regulated by the appropriate government agency under whose jurisdiction they are operating as such. Each exchange has its own Commodity Futures Option listed for trading on its auction market by its own members. Each exchange has by-laws and rules that regulate the trading of its own option for the maintenance of a fair and orderly market and for the protection of clients against fraudulent or wrongful activities of its members. Such rules may establish position and exercise limits and reporting requirements to prevent an imbalance in the market from arising. They may also require the broad dissemination of price and volume information in order to keep the pub lie reasonably informed of trading activities with respect to particular Commodity Futures Options. All these exchanges require compliance with their by-laws and rules as a condition for membership or continuing membership.

Each exchange also has its own clearing corporation to which all trades in their respective Commodity Futures Options are reported daily and matched to ensure that for each option purchased, there is a corresponding seller on the other side of the market. The clearing corporation facilitates settlement of obligations arising from each option transaction. Each clearing corporation, therefore, has its own rules designed for the orderly settlement of option trades.

The rules and regulations of the Exchange and their respective clearing houses vary from one another. They may also be changed from time to time, and such changes may even be given retroactive effect.

Before you decide to trade Commodity Futures Options, you should ask your dealer about these matters because they earl have a profound effect on your options transactions.

Contract specifications

Each Commodity Futures Exchange fixes the terms and conditions of its Commodity Futures Option. These terms may include such items as trading units, permissible price fluctuations, exercise prices, expiration dates, last day of trading, daily price limits, etc. Again, bear in mind that these terms vary among the different Commodity Futures Options, and they may even be changed from time to time without notice. You should study these specifications carefully before you decide to trade Commodity Futures 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:

- his investment needs and objectives
- the risks he is prepared to take
- the specifications of Options he may wish to trade
- commission rates
- margin requirements
- any other matter of possible concern.

Specifications for each Option are available on request from your broker and from the exchange on which the Option is listed. Acknowledgment

Name of Dealer: Interactive Brokers Canada Inc.

(The acknowledgment is to be executed in duplicate by the client, and a copy is to be retained by the dealer.)

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