

1. CONFLICTS OF INTEREST

(Note: Bolded items were added as a result of the new CFRs)

1.1. General

The obligation to identify and to appropriately respond to conflicts of interest is one of the most fundamental obligations of a registered firm and registered individuals under Canadian securities legislation. The Canadian Securities Administrators (the “CSA”) take a broad view as to situations that may be considered to give rise to a conflict of interest, and consider a “conflict of interest”¹ to be any circumstance in which:

- i) the interests of different parties, such as the interests of a client and those of a registrant, are inconsistent or divergent;
- ii) **a registrant may be influenced to put their interests ahead of the client’s interests; or**
- iii) **monetary or non-monetary benefits available to a registrant, or potential detriments to which a registrant may be subject, may compromise the trust that a reasonable client has in their registrant.**

As a registered firm, SVX must take reasonable steps to identify and respond to each potential and actual material conflict of interest, **determine the level of risk that a conflict of interest raises and respond appropriately to conflicts of interest.** A conflict of interest, could be expected to arise between and among:

- SVX, including each individual acting on SVX’s behalf, and an investor;
- SVX, including each individual acting on SVX’s behalf, and an issuer;
- issuers and/or investors in the issuers;
- within SVX; and
- with other entities.

As part of identifying these conflicts, SVX will collect information from the individuals acting on its behalf regarding the conflicts they expect will arise with their issuers and investors. SVX must deal with a conflict of interest in a fair, equitable and transparent manner, while exercising responsible business judgment consistent with industry best practices for exempt market dealers. **SVX will review its policies and procedures to identify any material conflicts of interest in a timely fashion. It will take proactive measures to anticipate reasonably foreseeable conflicts, implement training and procedures to identify existing conflicts and assess the materiality of any identified conflicts. Detailed internal records will be maintained that will assist in identifying material conflicts of interest. A determination will be made on how any identified**

¹ See section 13.4 of the Companion Policy to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”).

material conflicts of interest between a client and the registrant will be resolved in the best interest of the client. A registered individual must not engage in any trading or advising activity in connection with a material conflict of interest identified by the registered individual unless the conflict has been addressed in the best interest of the client and SVX has given the registered individual its consent to proceed with the activity.

The three mechanisms that SVX will generally use to deal with conflicts of interest are:

Avoid: SVX will first determine if it should avoid the conflict of interest because it is sufficiently contrary to the best interests of a client or the integrity of the capital markets, it is prohibited by law, or if there can be no other reasonable response to the conflict. **SVX’s policy is to avoid any material conflicts of interest between a client and the registrant if the conflict cannot be otherwise sufficiently addressed in the best interest of the client or until such time that SVX has fully implemented sufficient controls to address the conflict in favour of the client.**

Control: If SVX does not avoid the conflict of interest, it will consider what internal structures or policies and procedures it should have to reasonably address the conflict. For example, SVX may assign a different representative to provide a service to a particular client, create a group or committee to review, develop or approve a response to the conflict, monitor activity or use information barriers for certain internal communication. **SVX will consider whether effective disclosure of material conflicts of interest is being provided to clients and determine what, if any, additional controls are required to sufficiently address the conflict.**

Disclose: If SVX does not avoid the conflict of interest, SVX must consider if it is required to disclose the conflict. SVX will consider the appropriate timing and method of disclosing the conflict. SVX will provide prior written disclosure of a COI to issuers that are promoted on the SVX Platform and to investors in such issuers when there is a reasonable likelihood that the investor would consider the conflict important when entering into a transaction. The disclosure will be prominent, specific, clear and meaningful to the client and explain the nature and extent of the conflict of interest, the potential impact on and risk that the conflict of interest could pose to the client and how the conflict of interest has been or will be addressed. SVX will provide affected clients with written disclosure of all material conflicts of interest prior to or when a transaction is recommended, if applicable, or in a timely manner if the conflict is identified at a later date, **if a reasonable person would expect to be informed of such conflicts. It is important to note that disclosure alone will not satisfy a registrant’s obligations to identify and address material conflicts of interest and should be used in conjunction with other controls.**

The CCO will consult the guidelines set forth in section 13.4 of the Companion Policy to NI 31-103 with respect to methods of controlling conflicts of interest, timing of disclosure and determining when disclosure is appropriate.

Examples of situations in which a conflict of interest may arise include the following:

- SVX has relationships with “related issuers” or “connected issuers” (as defined below);

- SVX has relationships with other issuers;
- there are competing interests of issuers that are promoted on the SVX platform;
- the issuer has participated in an SVX supported program;
- SVX individuals (e.g., Registered Individuals or Permitted Individuals) serve on a board of directors of another entity;
- SVX individuals have Outside Business Activities; and
- SVX employs certain compensation practices that create incentives to promote certain issuers or securities over other issuers or securities.

Examples of conflicts of interest that the CSA has flagged as almost always *material* are:

- **Trading in, recommending or distributing proprietary products;**
- **Third party compensation;**
- **Paid referral arrangements; and**
- **Internal compensation and incentive practices.**

If you encounter a situation where you know, or believe, a conflict of interest exists, discuss that situation with the CCO to determine what appropriate action is to be taken.

In order to reduce the chance of an investor being exposed to conflicts of interest, the SVX and its dealing representatives do not/are not:

- Buy or sell securities as principal or agent;
- Act as a portfolio manager or investment fund manager;
- Related to or connected to any issuer;
- Comment on the merits or expected returns of an investment;
- Hold client assets;
- Clear or settle any trades;
- Invest itself in any issuer;
- Underwrite any issuer;
- **Receive third party compensation;**
- **Trade in proprietary products;**
- **Engage in any referral arrangements; and**
- **Engage in any compensation or incentive practices to recommend certain products over others.**

If, however, a member of either the SVX team or the advisory or review team is involved with an issuer as outlined below, then that person is required to inform either the Director or the CCO of the SVX. A review of the involvement will be conducted and if needed, the person will be recused from the onboarding and approval process of the issuer. Being involved with an issuer may include, but is not limited to:

- Being a family member, close friend or business associate of the issuer or a member of the issuer
- Provided financial assistance to the issuer

- Invested in the issuer
- Contemplating investing in the issuer

1.2. Disclosure Concerning Securities of Related and Connected Issuers

Disclosure requirements under Part 13 of NI 31-103

If a registered firm recommends securities of a “related issuer” or “connected issuer” (as defined below) to a potential investor, either verbally or in writing, the firm is generally required under section 13.6 of NI 31-103 to explain the nature and extent of the relationship or connection between the firm and the issuer at the same time.

A registered firm must deliver to a client all information that a reasonable investor would consider important about the client’s relationship with the registrant. The information delivered must include a description of the conflicts of interest that the registered firm is required to disclose to a client under securities legislation. Generally, a registered firm must deliver this information to the client in writing before the firm purchases or sells a security for the client, or advises the client to purchase, sell or hold a security.

Disclosure requirements under NI 33-105 Underwriting Conflicts

Similarly, if a registered firm distributes securities of a “related issuer” or “connected issuer” (other than securities of a mutual fund), whether under a prospectus or by way of private placement, the prospectus, offering memorandum or other offering document will generally be required to include certain prescribed disclosure about the relationship with the issuer under NI 33-105.

Meaning of the terms “related issuer” and “connected issuer”

It is important to note that the terms “related issuer” and “connected issuer” are defined broadly and may capture a wide variety of relationships that a registered firm or a registered individual may have with an issuer.

As defined in subsection 1.2(2) of NI 33-105, a person or company is a “related issuer” of another person or company if:

- the person or company is an “influential security holder” of the other person or company,
- the other person or company is an influential security holder of the person or company, or
- each of them is a related issuer of the same third person or company.

The term “influential security holder” generally refers to a situation where a person or company or “professional group” (which includes a registered firm and its officers, directors, employees and affiliates)

- owns or controls, directly or indirectly, more than 20% of the voting securities of an issuer,
- controls or is a partner of the issuer if the issuer is a general partnership,
- controls or is a general partner of the issuer if the issuer is a limited partnership,

- owns or controls, directly or indirectly, more than 10% of the voting securities of an issuer, and together with its related issuers, is entitled to nominate at least 20% of the directors of the issuer, or its officers, directors or employees constitute at least 20% of the directors of the issuer.

(Please refer to the full definition in s. 1.1 of NI 33-105 for details.)

The term “connected issuer” is defined broadly and means, for a registered firm or registered individual:

- a) an issuer distributing securities, if the issuer or a related issuer of the issuer has a relationship with any of the following persons or companies that may lead a reasonable prospective purchaser of the securities to question if the specified firm registrant and the issuer are independent of each other for the distribution:
 - (i) the specified firm registrant,
 - (ii) a related issuer of the specified firm registrant
 - (iii) a director, officer or partner of the specified firm registrant,
 - (iv) a director, officer or partner of a related issuer of the specified firm registrant, or

- b) a selling security holder distributing securities, if the selling security holder or a related issuer of the selling security holder has a relationship with any of the following persons or companies that may lead a reasonable prospective purchaser of the securities to question if the specified firm registrant and the selling security holder are independent of each other for the distribution:
 - (i) the specified firm registrant,
 - (ii) a related issuer of the specified firm registrant
 - (iii) a director, officer or partner of the specified firm registrant
 - (iv) a director, officer or partner of a related issuer of the specified firm registrant;

If a registered firm is distributing securities of a “related issuer” or “connected issuer”, and the securities are not securities of a mutual fund or otherwise exempt under section 1.3 of NI 33-105, then the prospectus, offering memorandum or other offering document is generally required to include disclosure set out in Appendix C to NI 33-105.

It is important to note that NI 33-105 applies both to distributions under a prospectus and most types of private placements. This is made clear by the drafting in subsections 2.1(1) and 2.1(2) of NI 33-105 as well as section 2.3 of Policy 33-105CP.

Appendix C Disclosure

Appendix C to NI 33-105 generally requires the following:

- a) Certain statements on the face page of the offering document describing the related or connected issuer relationship, the basis for the relationship, and a cross reference to further info in the offering document about this relationship (sections 1 to 3)
- b) Certain statements in the body of the offering document describing the related or connected issuer relationship and the basis for the relationship (sections 4 and 5)
- c) If the issuer is a connected issuer because of indebtedness, certain prescribed information about the indebtedness (e.g., amount of indebtedness, whether the issuer is in compliance with terms of indebtedness, any waivers of breaches, the nature of any security for the indebtedness, the extent to which the financial position of the issuer has changed since the indebtedness was incurred) (section 6)
- d) Certain prescribed information about the involvement of the dealer and each related issuer of the dealer in the decision to make the offering and the determination of the terms of the offering (section 7)
- e) Certain prescribed information about the effect of the offering on the dealer and each related issuer of the dealer, including info about the extent to which the proceeds of the offering will be applied for the benefit of the EMD and each related issuer of the dealer (section 8)
- f) If a portion of the proceeds will be applied to indebtedness (principal or interest) owed by the issuer (or certain related persons of the issuer) to the dealer or a related issuer of the dealer or the redemption of certain securities of the issuer held by the dealer or a related issuer of the dealer, certain prescribed information about the indebtedness or shares (section 9)
- g) Any other material facts with respect to the relationship or connection between the issuer and the dealer and each related issuer of the dealer (section 10).

This is a summary only. Please refer to Appendix C to NI 33-105 for the full requirements.

Exemptions for certain transactions with Permitted Clients

Certain jurisdictions, including Alberta² and British Columbia,³ have provided an exemption from these additional disclosure requirements under NI 33-105 if

- a) the distribution is exempt from the prospectus requirement; and
- b) each person or company that purchases a security pursuant to the distribution is a permitted client.

² See ASC Blanket Order 45-514 Re Certain Private Placements, 2014 ABASC 467, dated 20141120. This Order expires 20 November 2017.

³ See B.C. Instrument 51-512 Certain Private Placements dated March 23, 2015.

1.3. Tied Selling

SVX and SVX Employees are prohibited from engaging in improper or abusive sales practices such as selling a security on the condition that the client purchase another product or service from the registrant or one of its affiliates (also known as “tied selling”).

1.4. Gifts

Offering or Accepting Gifts

Although the exchange of common courtesies (such as gifts of nominal value) is recognized as an acceptable business practice, there is a danger in offering or accepting gratuities or favours which could be mistaken for improper payment or in extreme cases, could be construed as a bribe or an attempt to obtain preferential treatment. There are also laws and regulations which restrict your ability to offer and receive gifts in certain circumstances.

You must use good judgment and think about the implications before accepting or giving gifts, entertainment or similar favours. Such gifts or favours must not be more than CDN \$50.00 in value and should not result in any real personal gain. If you have any questions about the appropriateness of accepting a gift, you should speak with management.

Do not under any circumstances accept or offer gifts of cash, bonds, negotiable securities, personal loans, or personal use of airline tickets.

Do not accept or offer any gift:

- If you believe that the gift creates any type of obligation, or improperly influences a decision;
- If it is outside “normal business practice” for the purposes of courtesy and good business relations;
- If acceptance or offering such a gift contravenes applicable law; or
- If acceptance is illegal or inconsistent with generally accepted ethical standards.

Further, you must not accept a payment made out to you personally for SVX related speaking engagements or written presentations.

Generally acceptable gifts include:

- Holiday gifts, such as fruit baskets, candy or a bottle of wine,
- Inexpensive advertising or promotional materials (e.g. give-a-ways, such as pens, t-shirts, or key chains),
- Gifts clearly motivated by a family or close personal relationship, rather than business motives,

- Inexpensive awards to recognize service and accomplishment in civic, charitable, educational or religious organizations, and
- Reimbursement for expenses for SVX related speaking engagements or written presentations.

Gifts of Considerable Value:

Where it would be extraordinarily impolite or otherwise inappropriate to refuse a gift of obvious value, and subject to applicable laws, you may accept on behalf of SVX. Report the gift to your manager or the SVX employee who manages your engagement to determine how to deal with it. Such gifts may not be taken for your home use or enjoyment.

Offering Gifts:

Although you may provide small gifts or favours to business partners or suppliers – when this is in line with accepted business practice and does not produce any real or perceived conflict of interest – you must not offer to them (directly or indirectly) benefits or rewards which are in violation of any laws or regulations.

A final thought on accepting or offering gifts. Ask yourself if public knowledge of the gift would embarrass you or SVX. If you are still unsure what is considered an appropriate gift to give or receive, talk with your manager or the SVX employee who manages your engagement.

6.5 Restrictions on Borrowing From, or Lending to, Clients

While SVX does not typically engage in either borrowing from or lending to clients, this section is included to outline the present regulations on these activities in the event that SVX considers engaging in either activity in future.

SVX may not lend money, extend credit or provide margin to a client, unless any of the following apply:

- In the case of a loan, SVX is an investment fund manager who lends money on a short-term basis to an investment fund it manages, if the loan is for the purpose of funding redemptions of the investment fund's securities or paying expenses incurred by the investment fund in the normal course of business;
- SVX as a registered firm may lend money, extend credit or provide margin to clients who are either (i) a registered individuals sponsored by the firm, (ii) a permitted individual, as defined in National Instrument 33-109 Registration Information, of the firm or (iii) a director, officer, or employee of the firm;
- In the case of a registrant that is a registered individual, both of the following apply: (i) the client and the registered individual are related to each other for the purposes of the

Income Tax Act (Canada); (ii) the registered individual has obtained the written approval of the registered individual's sponsoring firm to lend the money, extend the credit or provide the margin.

A registered individual affiliated with SVX may not borrow money, securities or other assets or accept a guarantee in relation to borrowed money, securities or any other assets, from a client, unless either or both of the following apply:

- The client is a financial institution whose business includes lending money to the public, and the loan to the registered individual is in the normal course of the financial institution's business;
- Both of the following apply: (i) the client and the registered individual are related to each other for the purposes of the Income Tax Act (Canada); (ii) the registered individual has obtained the written approval of the individual's sponsoring firm to borrow the money, securities or other assets or accept the guarantee.