FAQs CEDIF OFFERING DOCUMENT

1a. ***How long will the application process take from the submission of the documents until receiving a letter of non-objection from the Director of Securities?***

The length of time varies widely between applicants depending on how the offering document is written. The NSSC strives to issue a first comment letter within ten days from receipt of the offering document. It is then up to the CEDIF to respond in writing in a timely manner.

1b. ***Where do I file for my first draft Offering Document?***

You should complete the offering document in its entirety except we do not require signatures in # 61 or the consents of accountants, or the signed trustee agreement. You must file RCMP (except if they've been filed in the past two years), expression of interest, subscription agreement, memorandum of association (unless previously filed), and material contracts. All these must be filed prior to issuance of the letter of non-objection.

2. ***What does a CEDIF have to provide to potential security holders?***

Pursuant to section 14 of the CEDC Regulations, the CEDIF must provide the offering document (Form 1), all promotional materials, a subscription agreement and any other materials required by the Director such as copies or access to material contracts entered into within the last two years and material listed in item 55 of the Offering Document.

3. ***Does the CEDIF have to maintain a list of the names of all persons and companies to whom the offering document and subscription agreement have been provided?***

Yes, pursuant to subsection 14(3) of the CEDC Regulations.

4. ***What is the minimum number of investors for the initial offering? And, additional offerings?***

Pursuant to subsection 2(e) of the Equity Tax Credit Regulations, a community means a group of persons within the Province that may be reasonably distinguished by common geographic, economic or cultural characteristics. Staff will normally be looking for a minimum of 25 investors in the initial offering and a minimum of 3 for additional offerings.

5. ***Who is an Independent Director? How many does a CEDIF need?***

A director is independent when he/she has no direct relationship with the CEDIF other than as a director (e.g. not as an officer or employee of corporations affiliated with the CEDIF or other entities) nor any “material” relationship with the CEDIF that might influence his or her judgment. Staff of the Commission will be looking for at least two independent directors.

6. *Do Directors have any liability?*

A person acting as a director of a CEDIF has significant liability for the actions or lack of actions of the CEDIF. There are other requirements the directors must ensure the CEDIF complies with. Please review all appropriate legislation.

7. *Item 10 of the offering document talks about risks factors. How do I complete this section?*

Staff of the NSSC will require full, clear and accurate disclosure of the risk factors which the CEDIF considers to be the most substantial risks to an investor in the CEDIF. The following is an example of the form and the level of disclosure staff of the NSSC expect.

PLEASE NOTE that the following is for illustrative purposes only and may not be current or accurate. Neither the CEDIF nor any investors should rely upon the following example:

1. A Chartered Business Valuator has not prepared a report on the value of any investments owned by the CEDIF. Actual values may differ materially from those stated. Readers are advised to consult with a financial advisor on this specific point before making an investment.

2. There is a lack of direct investment experience by the Fund, its promoters and its Board which may result in a "learning curve" respecting the placement of equity investments. This, in turn, may reduce the performance of the Fund, and hence is the primary risk factor identified prior to the Offering.

3. While it has been assumed that there are more potential investments within the community than the Fund can participate in, there remains a risk that the Fund will not be able to access these deals and/or will not be able to negotiate an agreeable financing arrangement with the partners of the target investment.

4. The investments made by the Fund will have returns which are directly attributable to the performance of the companies invested in. Therefore, the risk associated with an economic downturn in the local community is real and must be factored into the decision. Therefore, investments which were prudent at the time of investment may not prove profitable over the term they are maintained.

5. There are limited opportunities available for exiting the Fund, i.e., liquidity risk. The reader is instructed to refer to item 57 for a full disclosure of the limited options for the resale of these securities.

6. Another risk factor considered to be potentially material to an investor is the opportunity cost of capital should the offer not close. Depending upon the dates involved in the offering, an investor who chooses this investment may lose the opportunity to invest in another tax-assisted investment (e.g., Labour-Sponsored Venture Capital Corporations) due to the limitation on investment (60 days).

8. *Item 53 of the Offering Document talks about Income Tax Considerations and has suggested points to discuss. How do I complete this section?*

Staff of the NSSC will require full, clear and accurate disclosure of the potential taxation implications of an investment in the CEDIF. As taxation laws are complex and rapidly changing, it is desirable that the CEDIF obtain professional tax advice in preparing the disclosure. The following is an example of the form and the level of disclosure staff of the NSSC expect.

PLEASE NOTE that the following is for illustrative purposes only and may not be current or accurate. Neither the CEDIF nor any investors should rely upon the following example:

There may be significant income tax consequences to individuals who are residents of Canada under the *Income Tax Act* and the *Equity Tax Credit Act*.

The following is applicable to any individual (a "Subscriber") who subscribes for and is issued shares of the Issuer pursuant to the Offering and who is:

i) an individual over 19 years of age.
ii) resident in Canada for purposes of the Income Tax Act (Canada); and
iii) resident in Nova Scotia for purposes of the Equity Tax Credit Act (Nova Scotia).

Subject to the assumptions set out in the paragraph above, a Subscriber will be entitled to a nonrefundable credit against the Subscriber's Nova Scotia provincial income taxes payable pursuant to the Equity Tax Credit Act. The amount of the credit is equal to 35% of the amount paid for the Shares, provided that each individual is limited to a maximum credit in any year of $17,500. Shares subscribed and paid for in the first 60 days of any calendar year will be entitled to a credit in either that year or the immediately prior year. If the credit exceeds the Nova Scotia income tax otherwise payable in that year by the Subscriber, the credit may be carried forward 7 years and back 3 years and applied against Nova Scotia taxes otherwise payable in any of those years by the Subscriber.

These statements are subject to the following assumptions:

Except as set out herein, if a Subscriber fails to hold the Shares for 5 years after their issue, then all Credits earned in relation to the subscription for such Shares must be repaid. For any shares which subsequent tax credits are issued, the shares must be held for an additional period of time to avoid repaying these tax credits. The requirements to repay the Credits do not apply in cases where the Subscriber has died or in cases where the Subscriber transfers the shares to a trustee under a registered retirement savings plan and they are held for the remaining time period.

There may be significant income tax consequences to individuals who are residents of Canada under the Income Tax and the Equity Tax Credit Act.

Transfer of Shares to an RRSP:
Provided that the registration of the Issuer is not revoked under the Equity Tax Credit Act, the Shares will be qualified investments under the Income Tax Act for trusts governed by registered retirement savings plans. The transfer of shares to an RRSP will normally be done at the adjusted carrying value of the securities. This may result in a taxable capital gain or a non-deductible loss. Individuals who plan to purchase shares outside their RRSP, but transfer them later to their self-directed plan should consider the possible tax consequences of such transactions prior to finalizing any agreement.

Transfer of Shares to a Tax Free Savings Account (TFSA):
The shares purchased under the CEDIF program would not be qualified investments for the TFSA.

Taxation of Dividends or Income Received by Security Holders on the Shares:
Shareholders who hold shares within their RRSP need not be concerned with the manner in which the Fund distributes earnings. However, for individuals who purchase shares outside of the RRSP, consideration must be given to the tax implications of dividends versus interest income versus capital gains. Dividends received or deemed to be received on the Shares will be included in computing the Subscriber's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations.

Treatment of Capital Gains or Losses Realized by Security Holders on Disposition:
Persons holding shares within their RRSP need not concern themselves with the form returns are paid. For individuals who choose to hold these shares outside of their registered holdings, 50% of any capital gain (the "taxable capital gain") realized on a sale or other disposition of the Shares will be included in the Subscriber's income for the year of disposition. 50% of any capital loss so realized (the "allowable capital loss") may be deducted by the holder against taxable capital gains for the year of disposition.

Any excess of allowable capital losses over taxable capital gains of the Subscriber for the year of disposition may be carried back up to three taxation years or forward indefinitely and deducted against net taxable capital gains in those other years.

Applicability of Alternative Minimum Tax to Security Holders:
Investors are advised to seek professional advice from a qualified individual should they be in a position which may expose them to alternative minimum tax treatment. Capital gains realized by the Subscriber may give rise to alternative minimum tax under the Income Tax Act (Canada).

Deductibility of Interest Expense on Money Borrowed to Purchase Shares:
Interest incurred to earn income on investments held outside of ones RRSP is deductible against the income earned thereon; interest incurred on loans to purchase RRSP assets is not deductible.

Availability of Tax Credits:
Purchase of eligible shares entitles the investor to a non refundable provincial tax credit in the amount of 35% of the funds invested to a maximum of a $17,500 annual tax credit.

Repayment of Tax Credits:
The shares purchased under this program must be held by the purchaser for a period of not less than 5 years. If they are not held for this period the individual will have to repay the tax credits previously claimed. For any shares which subsequent tax credits are issued, the shares must be held for an additional period of time to avoid repaying these tax credits.

9. ***Please explain value reduction (dilution) in shares for new investors.***

Investors may experience an immediate loss of investment value when investing in a CEDIF. If the purchase price per share for new shares is greater than the existing shares' actual value per share then the value for existing shares will be increased by the cash brought into the CEDIF while the value of new shares will decrease from the purchase price.

For instance even though book value may have no relationship to actual value it can be used to illustrate the theoretical value reduction for new shares.

Book value for existing shares is (assets – liabilities)/ number of shares

Assets = $150,000
Liabilities = $45,000
Number of shares = 150,000

Purchase price for new shares $1.00 per share.
Minimum number of new shares 25,000 for $25,000
Maximum number of new shares 200,000 for $200,000

The current book value (BV) of existing shares is ($150,000-$45,000)/150,000 = .70/share.

Minimum Offering
In the minimum offering the new BV per share will be ($150,000+$25,000(for new shares)-$45,000/(150,000+25,000(for new shares)) = .74/share

New investors have a reduction from $1.00 to .74, .26 or 26%.

Maximum Offering
In the maximum offering the new BV per share will be ($150,000+$200,000(for new shares)-$45,000/(150,000+200,000(for new shares)) = .87/share

New investors have a reduction from $1.00 to .87, .13 or 13%.

Just above the calculation of dilution, please insert this phrase "The following calculations are based on book value, actual realizable fair market value may differ significantly from book value, which would also affect the calculated dilution."

10. ***What is required to be filed when there is an amendment to the offering document while in distribution?***

A letter to the Director of Securities asking the Director to non-object to the amendment;
- copies of the amended items in the Offering Document (Sample);
- new dated and signed certificate page;
- filing fee of $28.65 payable to the Minister of Finance, Nova Scotia.

11. ***What do I have to file when the CEDIF has its initial closing?***

Form 2A, Report of Trade, must be filed within 30 days of the initial closing of the offering.

12. ***What happens if the CEDIF does not meet its conditions of the initial closing?***

The CEDIF can withdraw the offering and have the Trustee return all the subscription funds to the subscribers within 30 days of the date of the initial closing specified in the offering document or the CEDIF can request an extension of the initial closing date.

13. ***What are the requirements to request an extension of the initial closing date (item 17)?***

The CEDIF must file a letter with the Director of Corporate Finance requesting an extension (an offering document amendment) of the initial closing date including the reasons for the request;
- confirmation that there has been no material changes to the CEDIF since the date of the original date of the certificate page of the offering document;
- an updated replacement page for item 17;
- new signed and dated certificate page;
- letter to the current subscribers explaining why the extension is required and giving them a 10 day right of withdrawal;
- filing fee of $28.65 payable to the Minister of Finance, Nova Scotia
- See also (Sample) above.

14. ***Once the CEDIF has had its initial closing, ie, the initial closing date (item 17) and wants to do subsequent closings, what is the process?***

The CEDIF can apply in a formal letter to the Director for a new letter of non-objection.

The letter to the Director should include the following:
- the date the CEDIF wants to extend to;
- confirm that there has been no material changes to the CEDIF since the date of the certificate page of the offering document ,
- confirm that all the conditions of initial closing as indicated in Item 16 of the Offering documents have been met
- state the number of investors and amount raised from the initial closing
- copy of the ETC certificate extending the date from Dept. of Finance
- filing fee of $28.65 payable to the Minister of Finance, Nova Scotia.

15. ***The CEDIF has had a subsequent closing, what does the CEDIF have to file?***

Form 2A, Report of Trade, must be filed within 30 days of the subsequent closing of the offering.

16. ***A CEDIF wants to use promotional materials, including advertising, in connection with "testing the waters" and/or an offering. Are there guidelines?***

Please review Blanket Order 45-523. These guidelines listed below are general in nature.

1. Disclaimer – always include the standard disclaimer on any promotional material. – "THIS CEDIF OFFERING MAY BE A HIGH RISK INVESTMENT. THIS OFFERING IS MADE THROUGH AN OFFERING DOCUMENT, WHICH CAN BE

OBTAINED FROM AN AUTHORIZED SALES AGENT, (*insert contact information*). THIS OFFERING CONSTITUTES AN EXEMPT OFFERING OF THESE SECURITIES ONLY IN NOVA SCOTIA BY AUTHORIZED SALES AGENTS. INVESTORS SHOULD READ THE OFFERING DOCUMENT BEFORE MAKING AN INVESTMENT DECISION."

2. Endorsement – suggested wording: "This advertisement has been approved by (*insert name*), (*title*)."
3. The Director only non-objects to an offering. It does not approve, authorize, allow, co-operate with or enable…
4. The investment qualifies as a Registered Retirement Savings Plan holding and is a tax deferral not a tax saving.
5. Tax credit – for clarity always identify it as a tax credit against N.S. provincial income taxes payable.
6. Investment returns – the Equity Tax Credit should not be mingled with returns on investment in any narrative or calculations.
7. Check for
    a. Balance – The content should contain both positive and negative aspect of the investment
    b. possible ambiguity and clarity
    c. unattributed statements
    d. exaggerated statements
8. Promotional material is incorporated by reference into the Offering Document as per sec. 15 of the CEDC Regulations. Therefore any potential liability issues with promotional materials should be a concern for Officers and Directors, and/or Promoters who have certified the Offering Document.

17. **Investment Fund Manager Requirement Policy 45-601 and Blanket Order 45-521**

Q. If a "CEDIF" has some investments which under Policy 45-601 and/or BO 45-521 **are exempt** (not subject to the requirements) from the investment fund manager requirement can they be excluded from the aggregate capital calculation in section 2.2 of the blanket order?
A. No, once an investment is made that **is not exempt** (subject to the requirements) the fund is an investment fund and is subject to the Policy and Blanket Order.

Q. If two or more CEDIFs are affiliated and all the investments made by a fund **are exempt** (not subject to the requirements), do they count towards the aggregate capital limit calculation in section 2.2 of the Blanket Order?

A. If the CEDIF or more correctly the CEDC **is exempt** (not subject to the requirements) then the capital raised by that fund is excluded from the calculation.

18. How much can an Investor invest in a CEDIF which is either a specified investment fund or a non-specified investment fund?

- Up to $15,000 per calendar year without advice
- Up to $30,000 per calendar year with advice from a registered investment dealer or exempt market dealer
- No limit if the investor is an officer, director or promoter of the CEDIF or an accredited investor as defined under NI 45-106