CMC MARKETS UK PLC
and
CMC MARKETS CANADA INC.
Risk Warning Notice for CFDs

March 2016

Registered in England. Company No. 02448409
Authorised and regulated by the Financial Conduct Authority. Registration No. 173730

Incorporated in Canada. Corporation No. 4303075

RISK WARNING NOTICE FOR CFDs

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CMC MARKETS CANADA INC.

(MARCH 2016)

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RISK WARNING NOTICE FOR CFDS
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CMC MARKETS UK PLC AND
CMC MARKETS CANADA INC.

CMC Markets UK Plc ("**CMC UK**"), whose registered office is at 133 Houndsditch, London EC3A 7BX, is authorised and regulated in the United Kingdom by the UK Financial Conduct Authority ("**FCA**") under reference number 173730.

CMC Markets Canada Inc. ("**CMC Canada**"), whose registered office is at Suite 1420, 120 Adelaide Street West, Toronto, Ontario M5H 1T1, is a registered investment dealer in all of the provinces and territories of Canada, a derivatives dealer in Quebec and a member of the Investment Industry Regulatory Organization of Canada ("**IIROC**") and of the Canadian Investor Protection Fund ("**CIPF**").

CMC Markets UK and CMC Markets Canada (together, referred to below as "**CMC Markets**", "**we**", "**us**" or "**our**") are committed to treating you fairly. In this notice, we provide you with information to help you understand the nature and risks of our contracts for difference ("**CFDs**") and our services.

Each of CMC UK and CMC Canada is required by its applicable regulator to provide clients with a description of certain risks involved with trading in financial derivative products.

This Risk Warning Notice is provided to our clients resident in Canada and/ or such jurisdictions as CMC Markets may determine in its sole discretion ("**client**" or "**you**") because you are proposing to undertake dealings with CMC Markets in CFDs under our Terms of Business.

Trading CFDs is not suitable for everyone and requires the financial ability and willingness to accept the high risks inherent in such an investment. You should carefully consider whether trading CFDs is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. No assurance can be given that you will receive a return of your capital or any profit thereon.

Our CFDs can carry a high risk to your capital as prices may move rapidly against you. You can lose more than any initial investment and you may be required to make further payments. Please note that the higher the leverage, the higher the risks involved.

You should not enter into trades with us unless you fully understand the risks involved. If you are in any doubt you should seek independent professional advice.

This notice cannot and does not disclose or explain all of the risks and other significant aspects involved in trading in CFDs and other financial derivative products. You should take sufficient time to read all the relevant information that we provide to you, including this risk warning notice, our CFD Terms of Business, our Order Execution Policy Summary for CFDs, and the information on our website and platform. In light of the risks, you should undertake to trade CFDs only if you understand the nature of the product and contractual relationships into which you are entering and the extent of your exposure to risk. Engaging in these types of trades can carry a high risk to your capital. You should not engage in trading CFDs and other financial derivative products unless you understand the nature of the trades you are entering into and the true extent of your exposure to the risk of loss. You should also be satisfied that the products are suitable for you in the light of your circumstances and financial position. If you are in any doubt you should seek independent advice.

Different products involve different levels of exposure to risk and in deciding whether to trade in such instruments you should be aware of the following points:

1. General.

Although CFDs and financial derivative products can be utilised for the management of investment risk, some of these products are unsuitable for many clients as they carry a high degree of risk. The "gearing" or "leverage" often obtainable in trading CFDs and financial derivative products means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small market movement can lead to a proportionately much larger movement in the value of your position, and this can work against you as well as for you. Such trades will have to be margined, and you should be aware of the implications of this, which are set out below.

Trading CFDs allows you to have exposure to securities with a relatively small cash collateral deposit. Furthermore, if you choose to fund the margin requirements using borrowed funds, their effective leverage can reach excessive levels. Clients should note that losses can exceed the amount of margin outlaid in some circumstances. **Therefore, you may sustain losses greater than the margin deposit required to establish and maintain a CFD position.**

You should be aware that CMC Markets also has the right (whether with or without prior demand, call or notice, and in addition to any other rights it may have under the Terms of Business) to close out all or part, as CMC Markets reasonably considers appropriate, of a client's open positions.

2. Derivative markets are speculative and volatile.

Derivative markets can be highly volatile. The prices of CFDs and the underlying instruments may fluctuate rapidly and over wide ranges, and may reflect unforeseeable events or changes in conditions, none of which can be controlled by a client. The prices of CFDs will be influenced by, among other things, changing supply and demand relationships, governmental, agricultural, commercial and trade programs and policies, national and international political and economic events and prevailing psychological characteristics of the relevant underlying marketplace. Market conditions (e.g. liquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any CFD or underlying instrument because of price limits or "circuit breakers") may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. Further, normal pricing relationships between the underlying instrument and the CFD may not exist. The absence of an underlying reference price may make it difficult to judge fair value.

3. Foreign markets.

Foreign markets will involve different risks from UK and Canadian markets. In some cases those risks will be greater, for example where those foreign markets are less well supervised, have greater or more rapid market fluctuations or when those markets are less liquid. This can impair our ability to generate prices. The potential for profit or loss from trades relating to foreign markets will also be affected by fluctuations in foreign exchange rates.

In particular, if you are trading in a product that is denominated in a currency different to the account currency of your account, any margin requirement, holding costs, and realised losses or realised profits and unrealised profits or losses will be converted to your account currency at the currency conversion rate at the relevant time (and in respect of unrealised profits or losses, in real time). Depending on the currency conversion rates (which may be different to those available elsewhere) and currency fluctuations, this may have an impact on your account revaluation amount on an ongoing basis (and therefore on whether or not your trades might be automatically closed), and on any eventual profits that you make or losses that you incur.

4. Margin and the effect of leverage in general.

CFDs and other financial derivative products are margined, and require you to make a series of payments against the contract value, instead of paying the whole contract value immediately. This means that CFDs can involve significant leverage, which can have the effect of magnifying potential profits or potential losses, and consequently carries significant risk. Where you enter into CFDs and other financial derivative transactions with us, you must maintain sufficient margin on your account at all times to maintain your open positions and we provide you with on-line access to enable you to monitor your margin requirement at all times. We revalue your open positions continuously during each business day, and any profit or loss is immediately reflected in your account and a loss (which may or may not result in a margin call) may require you immediately to provide additional funds to us to maintain your open positions. We may also change our rates of initial margin and/or notional trading requirements at any time, which may also result in a change to the margin you are required to maintain. If you do not maintain sufficient margin on your account at all times and/or provide such additional funds within the time required, your open positions may be closed at a loss and you will be liable for any resulting deficit.

5. You may lose more than any deposit.

When you transact with us, you risk losing more than the amount that you deposited with us and you may be required to make further payments. This is different to investing in other types of financial instruments, for example shares, where generally you only stand to lose the amount you pay for the asset that you buy. Although our platform has features that are designed to help minimise your risk of loss, none of these are guaranteed and you should not rely on them.

<u>Losses from your trades:</u>

The amount of any loss for an individual trade will be the amount that you owe us when that trade is closed. This will reflect the full value of your position. Even over a short space of time this amount may exceed the amount of any deposit (if any) that you held with us when entering into the trade. It is a feature of leveraged (also known as 'geared' or 'margined') instruments that you can lose more than any initial payment. Leverage means that you can proportionally over participate in market fluctuations (both as profits made or losses incurred). It is therefore important that you consider the size of your position in addition to the rate of leverage utilised. For instance: if a position in a particular CFD has a margin percentage of ten, then any market fluctuation will have an impact which is ten times higher than the margin amount (reflecting the full value of your position) than if you had traded without leverage or invested directly into the underlying instrument. Consequently, the higher the leverage rate, the higher the risk involved.

Therefore, the impact of any price movement on your trades and account will depend on the size of your position in the relevant CFD as well as the margin rate(s) applicable to that position, rather than the amount of any deposit held with us when you entered into the trade(s). So a small movement in price may have a large impact on your trades and account if you have entered into a large trade with little margin. In addition, when entering into short trades it is possible to lose more than the trade value, since any increase in price may be more than the price at which you opened the trade. Therefore, short trades can be riskier than long trades.

Please note that the unrealised profit or loss displayed on our platform at any time may not accurately reflect the realised profit or realised loss that would be gained or incurred if you closed one or all of your open trade(s) immediately, particularly where a trade may be closed at a price that differs from the level 1 price. The unrealised profit or loss displayed on our platform is calculated using the current level 1 price.

<u>Costs incurred through investing:</u>

There are costs associated with trading with us. Some costs, such as spread (which is the difference between the buy price and the sell price of a particular product at any given time) will arise on all trades, while others will depend on the type of trade and/or the risk management measures you put in place.

Depending on the trades you enter into, and how long you hold them for, we may require you to pay commission and/or holding costs. Commission will be incurred on entering into certain trades and will be determined by reference to the size of the trade. In some cases, and particularly where you keep trades open for a long time, holdings costs will apply. The aggregate of these holding costs may exceed the amount of any profits or increase your loss. Please refer to our Terms of Business for further information on how commission and holding costs are calculated.

6. Your trades and positions are at risk of being closed automatically.

At all times, your account revaluation amount must stay above the close-out level specified by our platform, otherwise the whole or a portion of your trades and/or positions may be closed by our platform. However, **we do not guarantee such closure and you must not rely on it**. It is your responsibility to monitor your positions closely and you will be able to monitor your account revaluation amount through our platform. Closely monitoring your positions is very important because you might have to make immediate additional payments to avoid a close-out by our platform. Our platform will attempt to notify you when your account revaluation amount falls to the percentage level or absolute amount specified on our platform, although you should not rely on our platform giving you this warning. To prevent closure of the whole or a portion of your trades and/or positions, you should deposit a sufficient amount of money into your account to cover any potential losses or costs from your trades. It is important to note that even an amount that you previously deposited and which appeared to be more than sufficient at the time, can very quickly become insufficient due to rapidly changing market conditions.

The automatic closure of your trades is aimed to prevent you incurring further losses and may close all trades and/or positions on your account, not just trades that are making a loss. This means that your losses (and any profits) will be realised, even if the price movements against you are only temporary.

7. Market circumstances may impact your trades.

The ability of our platform to generate prices and execute orders is dependent on the availability of prices and liquidity in the exchanges, markets and other venues from which we gather market data and similar information. In addition, because we maintain our own financial stability by hedging with other counterparties, we may be unable to execute your orders where we cannot enter into a corresponding trade to hedge our own risk (for example, due to the activities of an issuer of shares to which your trades relate, which can sometimes restrict the market liquidity in those shares). Therefore, market circumstances may impact on your ability to place an order or close a trade with us. In contrast, if we enter into a corresponding trade, to hedge our risk, this may have an influence on the underlying market conditions and consequently also on the prices we quote on our platform and your account.

Financial markets may fluctuate rapidly and the prices of our products are no exception. Any movements in our prices will have a direct and real time effect on your trades and account.

One form of price volatility that can happen regularly is called 'gapping'. This occurs where there is a sudden shift in price from one level to another. This can be caused, for example, by unexpected economic events or market announcements, particularly where these occur outside trading hours. There may not always be an opportunity for you to place an order between the two price levels, or for our platform to execute a pending order at a price between those two levels. Gapping can result in you incurring significant losses (or profits) on an affected trade. Certain markets also have limited trading hours which can impose a significant risk to your ability to place orders and close trades.

8. The price of a trade may be different from the price you see on our platform when you place an order.

There is a risk that the price which you see through your device when you place an order will not be identical to the price at which the trade is executed, and that the corresponding difference puts you at a disadvantage. We attempt to generate prices on a continuous basis and to have the currently applicable prices shown on our platform as quickly as possible. However, technical conditions (e.g. the transfer rate of data networks or the quality of your internet connection, as well as rapid market fluctuations) may lead to a change in the applicable price between the time the order is placed by you and the time the relevant order is received by us or the order is executed by our platform. Such changes to the applicable price are due to fluctuations in the financial markets rather than on arbitrary interventions made by us. If such changes occur, the order is generally executed at the price applicable when the order is executed by our platform. Such movements in the prices may either be to your disadvantage or have a favourable impact. You can limit the effect of such movements in prices by using a boundary (on orders where this is available) or by placing a limit order.

9. Technical risks and other circumstances may affect your trades.

There is a risk that other circumstances may prevent us from executing orders, or prevent you from accessing our platform. These include, for example, system errors and outages, maintenance periods, internet connectivity issues or failures of third parties on whom you or we are dependent (for example, internet service providers or electricity companies). We have business continuity measures in place to deal with some of these issues, but in some circumstances you may not be able to access our platform. These technical risks and other circumstances can pose a significant risk to the execution of your orders.

10. Different products pose different risks.

We offer numerous products, which are derived from very different underlying instruments. Each of these products poses specific risks which can differ widely from other products, for instance with regard to the range and speed of price fluctuations or with respect to liquidity. Therefore, you should ensure that you understand the specific risks of a product before you open a trade on that product.

Where a product is based on multiple underlying instruments (a 'basket' product), this will have an impact on the risk of the product. The risk involved in a basket product will depend on the risks involved in its constituents. If the basket constituents share similarities (for example they all relate to the same sector or country) then this can make the product riskier. Also, if riskier constituents are given a higher weighting within the product, this will make the product riskier. If you choose to use a basket product then you should make sure that you understand the risks involved in all the different constituents, the risks involved in the overall combination of constituents that make up the product and the risks involved in how the constituents are given their respective weightings.

11. Off-exchange transactions.

When trading CFDs and other financial derivative products with us, you will be entering into off-exchange (**OTC**) derivative transactions, which is non-transferable. This means you will enter into trades directly with us, and also that those trades (or '**positions**') can only be closed with us. Transactions in off-exchange derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid prices and offer prices need not be quoted by us, and, even where they are, we may find it difficult to establish a fair price particularly when the relevant exchange or market for the underlying is closed or suspended.

In addition, all of your trades with us are settled in cash, and you do not have any rights to any underlying instrument (including ownership or voting rights in any underlying instrument).

You can only profit from our CFDs through changes in our prices, which is different from other assets, such as shares or currencies, where you can profit from real market fluctuations and where you may be entitled to dividends or interest.

12. Charges and commissions.

Before you begin to trade, you should obtain from us details of all commissions and other charges for which you will be liable. If any charges are not expressed in money terms (but, for example, as a percentage of contract value), you should obtain a clear and written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. When commission is charged as a percentage, it will normally be as a percentage of the total contract value, and not simply as a percentage of your initial payment.

Commission, bid/ask spreads, and other transaction fees can have a material adverse effect on a client's market position and ability to break even and, therefore, ultimately affect profits and losses. In order to achieve a net profit on any transaction, the price received upon the sale of the market position must exceed the purchase price by at least the amount of commissions and other fees paid.

Trading CFDs may involve frequent purchase and sale transactions, resulting in significant fees and commissions.

13. Suspensions of trading.

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example at times of rapid price movement if the price for the underlying rises or falls in one trading session to such an extent that trading in the underlying is restricted or suspended.

14. Money and Collateral.

An amount of money that is equivalent to money held by CMC Canada in respect of your margin requirements will be paid by CMC Canada out of its own funds to CMC UK to secure your actual or potential obligations under the CFDs. Once paid to CMC UK, such amount will not be segregated from CMC UK's own money.

Money deposited with CMC Canada will be segregated from CMC Canada's operating funds. It is important to note, however, that money held in a segregated account may not afford clients absolute protection. Please be advised that a segregated account may not insulate your money from a default by CMC Canada or CMC UK.

If you deposit collateral as security with us, we may provide you with additional terms and conditions that apply. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets which you deposited and may have to accept payment in cash. It is your responsibility to ascertain how your collateral will be dealt with by us.

15. Past performance does not constitute a reliable indicator of future performance.

You should bear in mind that any past performance, simulation or prediction does not constitute a reliable indicator of future performance. Therefore, you cannot and must not rely on any past performance, simulation or prediction to indicate future performance.

16. CMC Markets as Product Issuer and Market Maker.

CMC Markets, its associates or other persons connected with CMC Markets may have an interest, relationship or arrangement that is material in relation to any CFD entered into with CMC Markets. These conflicts of interest arise because CMC UK is the issuer of the CFDs to you, and therefore CMC UK has an opposing interest in the price at which you deal and the subsequent movement in the CFD price.

CMC Markets is a market maker, not a broker. The prices generated by our platform will take into account current exchange and market data from various sources. This means that our price may be different to any current exchange or market price, or another financial product provider’s price, for the relevant underlying instrument. The profits or losses that you make from trading with us will be in relation to our prices solely, and not to prices prevailing or shown anywhere else.

CMC Markets will always act as a principal, not as an agent, for its own benefit in respect of all CFD transactions with you.

CMC Markets may also conduct transactions as principal in the underlying instruments on which CFDs are based, including shares and futures. In particular, CMC Markets may at its sole discretion, hedge its liability to you in respect of your CFD positions by undertaking transactions in the underlying instruments in the underlying markets. However, CMC Markets has no obligation to do so and is under no obligation to inform you as to whether or not it has done so. These trading activities may affect (positively or negatively) the prices at which you may trade CFDs.

17. Loss of Funds In the Event of an Insolvency, Bankruptcy or Liquidation.

There is a risk associated with the solvency of CMC UK, the counterparty to each CFD. A client may lose part or all of their unrealized gains in an open position or due to the insolvency, bankruptcy or liquidation of CMC UK. The extent to which a client may be able to bring a claim against CMC UK may be governed by specific legislation. CMC UK is not a reporting issuer in Canada.

You should be aware of the difficulties enforcing any legal rights against CMC UK in the event of its bankruptcy or liquidation, see paragraph below.

18. Enforcement of Legal Rights.

CMC UK is established under the laws of a jurisdiction outside Canada and all of CMC UK's officers and directors are located outside Canada. All or substantially all of the assets of CMC UK and such persons are and will be located outside Canada. As a result, there may be difficulty in enforcing any legal rights against CMC UK or such persons. In particular, it may not be possible for clients to effect service of process within Canada upon CMC UK or such persons, to satisfy a judgment against CMC UK or such persons in Canada or to enforce a judgment obtained in Canadian courts against CMC UK or such persons outside Canada.

19. Changes to Applicable Laws.

Changes to securities regulatory law, tax law and other laws, government, fiscal and regulatory policies in respect of all or part of the business carried on by CMC Canada or CMC UK may have a material adverse effect on a client's dealings with CMC Canada or CMC UK.

CMC Canada is the dealer and agent for CMC UK in the distribution of CFDs to clients resident in Canada. As a member of IIROC, certain integral features of CFDs offered in Canada through CMC Canada, including the margin percentage applied to CFD positions and the types of underlying instrument, are required to be in compliance with the rules, regulations, policies, member notices and bulletins of IIROC (the "**IIROC Rules**") which may be amended from time to time. Such IIROC Rules may have a materially adverse effect on the scope or attractiveness of CFDs offered to clients resident in Canada.

20. Reliance on the CMC Markets Platform.

The operation of a client's account is reliant on the continuing operation of, among other things, CMC Markets' electronic trading platform, as amended and varied from time to time (the "**Platform**"), internet connectivity, and a client's personal computer and related software. A fault, delay or failure of any of these things could result in delays or failures in respect of CFD orders or a client's account. While CMC Markets will endeavour to provide a client with access to the Platform 24 hours a day, 7 days a week, CMC Markets does not control signal power, its reception or routing via the internet, configuration of a client's equipment or reliability of its connection, therefore, CMC Markets cannot be responsible for any communication failures, distortions or delays experienced when trading CFDs via the Internet. By undertaking transactions on an electronic trading system, a client will be exposed to risks associated with the system, including the failure of hardware and software. A client's ability to recover certain losses which are particularly attributable to trading on a market using an electronic trading system may be limited to less than the amount of a client's total loss.

21. Access to our platform via mobile applications.

The functions that enable you to access our platform via mobile applications (so-called "**apps**") are not identical to the functions available to you when accessing our platform via a desktop computer. This may limit the information that you are able to see at any particular time and adversely affect your ability to take quick and reliable actions on our platform and to limit the related risks.

22. Reliance on Third Party Data Providers.

In addition, CMC Markets is dependent upon third party data providers to supply real-time market prices and other information necessary for the operation of its business. As with the reliance on the Platform, the operation of a client's account is reliant on the continuing operation of these third party data providers. Any interruption in or cessation of services by any third party information provider could have a material adverse effect on a client's ability to open and close positions.

23. Limitations of features and third party content.

The accuracy, completeness and availability of any features or third party content (including market data) available on our website, on our platform and in emails cannot be guaranteed, and they are provided on an "as is" and "if available" basis.

24. Execution Only Dealer and No Advice Provided.

CMC Canada is an execution only dealer and neither does CMC UK nor CMC Canada provide any investment advice or recommendations regarding the purchase or sale of any CFD. Therefore all trading decisions made by a client should be done so in reliance solely on the client's own judgment and at their own risk. Clients must rely on their own judgment and information before trading and, where necessary, seek independent advice.

All opinions, news, research, analysis, prices or other information contained on the Platform or the website of any of CMC Markets' affiliates are provided as general market commentary and do not constitute investment advice.

We do not provide investment, tax, legal, regulatory or financial advice relating to investments or possible trades in investments. Any information we provide to you is purely factual and does not take into account your personal circumstances (for example, information about trading processes or minimising potential risks). Therefore, you may wish to obtain independent professional advice from a suitably qualified advisor on any investment, financial, legal, regulatory, tax or similar matter before trading with us.

25. You should not finance your trades with us on credit.

If you fund your trades with us using credit (e.g. a bank loan or credit card), your risk will be significantly increased, and if you make a loss using that money, you will still have to repay your borrowing including interest. Therefore, you must not rely on being able to redeem borrowed funds with any profits from trades with us.

26. IIROC Leverage Disclosure.

CMC Canada, as a member of IIROC is required to provide the following disclosure to clients seeking to trade in products that involve leverage: "Using borrowed money to finance the purchase of securities involves greater risk than using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines."

PRESCRIBED RISK INFORMATION FOR CLIENTS RESIDENT IN CANADA.

Certain securities and derivatives legislation in Canada requires that CMC Markets UK Plc and CMC Markets Canada Inc. provide a Risk Information Document for Derivatives to clients resident in Canada.

This information, which is set out below, does not disclose all of the risks and other significant aspects of trading in futures contracts, options or other derivatives. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Trading in derivatives is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

FUTURES CONTRACTS.

(a) Effect of "Leverage" or "Gearing"

Transactions in futures contracts carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit: this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the firm to maintain your position. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be liable for any resulting deficit.

(b) Risk reducing Orders or Strategies

The placing of certain orders (e.g. a stop loss order, where permitted under local law or limit orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as "spread" and "straddle" positions may be as risky as taking simple "long" or "short" positions.

OPTIONS.

(c) Variable Degree of Risk

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarize themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a futures contract, the purchaser will acquire a futures position with associated liabilities for margin (see the section on Futures Contracts above). If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium plus transaction costs. If you are contemplating purchasing deep out of the money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavourably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a futures contract, the seller will acquire a position in a future with associated liabilities for margin (see the section on Futures Contracts above). If the option is "covered" by the seller holding a corresponding position in the underlying interest or a futures contract or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

Certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

ADDITIONAL RISKS COMMON TO DERIVATIVES.

(d) Terms and Conditions of Contracts

You should ask the firm with which you deal about the terms and conditions of the specific futures contracts, options or other derivatives which you are trading and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of the underlying interest and, in respect of options, expiration dates and restrictions on the time for exercise).

Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

(e) Suspension or Restriction of Trading and Pricing Relationships

Market conditions (e.g. liquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or "circuit breakers") may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If you have sold options, this may increase the risk of loss.

Further, normal pricing relationships between the underlying interest and the derivative may not exist. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not.

The absence of an underlying reference price may make it difficult to judge "fair" value.

(f) Deposited Cash and Property

You should familiarize yourself with the protections accorded money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which had been specifically identifiable as your own will be prorated in the same manner as cash for purposes of distribution in the event of a shortfall.

(g) Commission and Other Charges

Before you begin to trade, you should obtain a clear explanation of all commissions, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

(h) Transactions in Other Jurisdictions

Transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may expose you to additional risk. Such markets may be subject to regulation which may offer different or diminished client protection. Before you trade you should inquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you deal for details about the types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

(i) Currency Risks

The profit or loss in transactions in foreign currency denominated derivatives (whether they are traded in your own or another jurisdiction) will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the derivative to another currency.

(j) Trading Facilities

Most open outcry and electronic trading facilities are supported by computer based component systems for the order routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms. Such limits may vary; you should ask the firm with which you deal for details in this respect.

(k) Electronic Trading

Trading on an electronic trading system may differ not only from trading in an open outcry market but also from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system, including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all. Your ability to recover certain losses which are particularly attributable to trading on a market using an electronic trading system may be limited to less than the amount of your total loss.

(l) Off-exchange Transactions

In some jurisdictions, and only then in restricted circumstances, firms are permitted to effect off exchange transactions. The firm with which you deal may be acting as your counterparty to the transaction. It may be difficult or impossible to liquidate an existing position, to assess the value, to determine a fair price or to assess the exposure to risk. For these reasons, these transactions may involve increased risks.

Off-exchange transactions may be less regulated or subject to a separate regulatory regime. Before you undertake such transactions, you should familiarize yourself with applicable rules.

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This Risk Warning Notice may be amended or replaced from time to time and is accessible on www.cmcmarkets.ca.