NOVA SCOTIA
Securities Commission

Joseph Howe Building
2nd Floor
1690 Hollis Street
PO Box 458
Halifax, Nova Scotia
Canada B3J 2P8

902 424-7768 T
902 424-4625 F
www.gov.ns.ca

FREQUENTLY ASKED QUESTIONS
As amended on August 28, 2009
(September 11, 2008 as amended on June 3, 2009)

Community Economic-Development Corporations (CEDC) also known as Community Economic Development Investment Fund (CEDIF)

To assist CEDIF participants in understanding and applying *Community Economic-Development Corporations Regulations* (CEDC Regulations), Nova Scotia Securities Commission (NSSC) staff has compiled this summary of questions and NSSC staff responses.

THE OFFERING DOCUMENT

1. Q. *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?*

A. 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.

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

A. Pursuant to section 14 of the CEDC Regulations, the CEDIF must provide the offering document (Form 1), a subscription agreement and any other materials required by the Director such as copies or access to material contracts entered into within the last 2 years and material listed in item 55 of the Offering Document.

3. Q. *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?*

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

4. Q. *What is the minimum number of investors for the initial offering? Additional Offerings?*

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

A. A director is independent when he/she has no direct relationship with the CEDIF other than as a director (e.g. 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. Q. *Item 10 of the Offering document talks about Risks Factors. How do I complete this section?*

A. **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).

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

A. **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 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 30% of the amount paid for the Shares, provided that each individual is limited to a maximum credit in any year of $15,000. 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:

i) The certificate of registration issued to the Issuer under the Equity Tax Credit Act is not revoked by the Minister of Finance prior to the issue of shares under this Offering;
ii) The Issuer applies for a tax credit certificate after the Offering within the time limits established under the Equity Tax Credit Act;
iii) The Minister of Finance concludes that the Issuer and its directors, officers and shareholders are conducting the Issuer's business and affairs in a manner that is in accordance with the spirit and intent of the Equity Tax Credit Act;
iv) The Minister of Finance concludes that the Issuer and the Subscribers are complying with the Equity Tax Credit Act;
v) The Minister of Finance does not form the opinion that the shares are issued as part of a transaction or event or series of transactions or events the main purpose of which is to claim the tax credit pursuant to the Act.

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.

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 provincial tax credit in the amount of 30% of the funds invested to a maximum of a $15,000 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.

8. Q. *Please explain value reduction in shares for new investors.*

A. 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."

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

A. 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;
- new dated and signed certificate page;
- filing fee of $25.75 payable to the Minister of Finance, Nova Scotia.

10. Q. *The CEDIF is doing a mass e-mail. Does the CEDIF require a non-objection letter from the NSSC and the warning on the e-mail?*

A. Yes

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

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

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

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

A. The CEDIF must file a letter with the Director of Securities requesting an extension 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 $25.75 payable to the Minister of Finance, Nova Scotia.

14. Q. *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?*

A. The CEDIF can apply in a formal letter to the Director pursuant to Section 18(4) for an extension beyond the six (6) months as stated in Section 18(3).

This letter 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 $25.75 payable to the Minister of Finance, Nova Scotia.

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

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

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

A. These guidelines are general in nature. The Director has the discretion to issue or not to issue a non-objection letter for any promotional material as per subsection 8(2) of the CEDC Regulations.

1. Warning – always include the standard Warning on any promotional material. – see website
2. The Director only non-objects to an offering. It does not approve, authorize, allow, co-operate with or enable…
3. The investment qualifies as a Registered Retirement Savings Plan holding and is a tax deferral not a tax saving.
4. Tax credit – for clarity always identify it as a tax credit against N.S. provincial income taxes payable.
5. Investment returns – the Equity Tax Credit should not be mingled with returns on investment in any narrative or calculations.
6. Check for
    a. possible ambiguity and clarity
    b. unattributed statements
    c. exaggerated statements
7. General overall critical review of content not artistic presentation.
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.

CONTINUOUS DISCLOSURE

1. Q. *When does the CEDIF start filing its continuous disclosure* under the CEDC Regulations *with the NSSC?*

A. Once the CEDIF has had its initial closing of its first offering.

2. Q. *What do I have to file once I become a CEDIF?*

A. Pursuant to section 23 of the CEDC Regulations and Blanket Order No. 51-503, semi annual comparative financial statements and annual comparative financial statements must be sent to the current shareholders of the CEDIF at the same time as they are filed with the NSSC and press releases and material change reports must be filed with the NSSC.

3. Q. *What are the time frames for filing the continuous disclosure documents?*

A. - The semi annual comparative financial statements are filed within sixty (60) days after the end of the period covered by the financial statements.

- The annual comparative financial statements are filed within one hundred and forty (140) days after the year end of the CEDIF.

- If a material change has occurred in the operation of the CEDIF, a press release along with a material change report must be filed within ten (10) days of the date on which the change has occurred.

4. Q. *What statements must be included in the financial statements?*

A. The statements are: comparative balance sheet, comparative income statement, comparative cash flow statement and Notes, if applicable.

The balance sheet must be signed by two directors in the annual comparative financial statements.

5. Q*. Do the annual comparative financial statements have to be accompanied by an audit report or a review engagement report?*

A. Yes as per section 23 of the CEDC Regulations.

6. Q. *Does my accountant have to be a member of the Public Accountants Board of Nova Scotia in order for him/her to do the audit or the review engagement report for the annual financial statements of the CEDIF?*

A. Yes

7. Q. *Do the semi annual comparative financial statements have to be accompanied by an audit report or a review engagement report?*

A. No as per section 23 of the CEDC Regulations.

8. Q. *Once the five year hold period on the ETC has expired; does the CEDIF still have continuous disclosure obligations under the CEDIF Regulations?*

A. Yes, the CEDIF is still required to file with the NSSC and send to its security holders the annual financial statements and semi annual financial statements. If a material change has occurred in the operation of the CEDIF, a press release along with a material change report must be filed with the NSSC within ten (10) days of the date on which the change has occurred.

9. Q. *What actions are taken by NSSC staff if the CEDIF does not meet its continuous disclosure obligations?*

A. On failing to comply with a request of staff to meet its continuous disclosure obligations, staff may refer the matter to the Deputy Director, Compliance and Enforcement for further action.

GENERAL

1. Q. *Who decides how my money will be spent?*

A. The Board of Directors of the CEDIF subject to the disclosure in the offering document.

2. Q. *What are the time frames for the CEDIF to invest?*

A. Pursuant to section 16 of the Equity Tax Credit Regulations, 80% of the net proceeds must be invested within 36 months of the initial closing date in item 17 where 40% is invested within 12 months, 60% within 24 months and 80% within 36 months.

3. Q. *If the CEDIF proposes to invest more than 40% of the total proceeds of all of its offerings in a single specified investment that was not disclosed in the offering document, what is the CEDIF's responsibility?*

A. The CEDIF must:
i) provide security holders with an information circular that describes in sufficient detail the specifics of the transaction and the operations of the potential investment to let the security holders form a reasoned opinion concerning the investment,
ii) call a special meeting, and
iii) obtain the approval of at least 50% plus one of the votes cast at the special meeting.

4. Q. *How do I get out of the CEDIF?*

A. Pursuant to subsection 9(2) of the Equity Tax Credit Act, if you dispose of your shares under any circumstances other than at the death of the shareholder before the 5 year hold period expires you may in most cases be required to repay the ETC. The Nova Scotia Department of Finance will recover the funds from the Canada Revenue Agency ("CRA").

i) You may be able to sell your shares back to the CEDIF. There is no legal obligation for the CEDIF to purchase your shares at any price although they may do so at their discretion. This is a decision made by the Board of Directors. If the CEDIF is paying out more than 20% of retained earnings to purchase shares it must get written approval from the Minister of Finance.

ii) You may sell your shares to an existing shareholder of the CEDIF at any price provided you give them a statement advising them in writing prior to entering into an agreement of purchase and sale that the purchaser shall not accrue any advantage under the Equity Tax Credit Act as a result of such purchase. The purchaser should also be aware that if their holdings exceed 20% of the shares outstanding, the CEDIF's registration will be revoked by the Minister of Finance.

iii) You may sell to a purchaser who purchases in compliance with the Securities Act and any applicable Securities Rules, ie, National Instrument 45-106 *Prospectus and Registration* Exemptions.

5. *Q. Can a potential investor from outside of Nova Scotia invest in the CEDIF?*

A. The CEDIF must rely on the securities law in the jurisdiction of the potential investor in addition to Nova Scotia securities law. A non-resident investor is not eligible for the ETC in Nova Scotia as per subsection 2(i) of the Equity Tax Credit Act.

6. Q. If the CEDIF has invested 20% or more of its net proceeds of the total offerings to date in an investee corporation. What has to be filed?

A. The most recent financial statements of the Investee Corporation have to be filed with the offering document.

7. Q. *Where can I go to get more information?*

A. Information is available on the Nova Scotia Securities Commission's website at: http://www.gov.ns.ca/nssc/corporatefinance/cedif.htm