

Derivatives Disclosure Document

I. Derivatives Risk Disclosure Statement

This risk disclosure statement does not disclose all of the risks and other significant considerations associated with trading in derivatives. In light of the variety of risks involved, you should undertake such transactions only if you understand the nature of the contracts, the contractual relationships into which you are entering and the extent of your exposure to risk. Trading in derivatives is not suitable for everyone and often entails a high level of risk. Trading in derivatives should be made with caution and you should carefully consider whether such transactions are appropriate for you in light of your personal and financial circumstances, investment needs and objectives, investment knowledge, risk profile, investment time horizon, and other relevant circumstances. You should consult with your own business, legal, tax and account advisers before engaging into such transactions.

You may lose more than the amount of funds deposited

A characteristic of many derivatives is that you are only required to deposit funds that correspond to a portion of your total potential obligations and yet your profits or losses are based on changes in the total value of the derivative. This inherent leverage characteristic means that losses incurred can greatly exceed the amount of funds deposited. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit. Your dealer may require you to deposit additional funds on short notice to maintain your position as the value of the derivative changes. If you fail to deposit these funds, your dealer may close out your position at a loss without warning and you will be liable for any resulting deficit in your account.

Using borrowed funds carries greater risk

Using borrowed funds to finance a derivatives transaction involves greater risk than using cash resources only. If you borrow money, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the derivative declines.

Deposited cash and property

You should familiarize yourself with the protections accorded to 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.

Commission and other charges

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

Fluctuations in price or value

The price and value of derivatives can be adversely affected by volatile market conditions and such occurrences may significantly increase your risk exposure. There are a variety of market factors and conditions which can directly or indirectly affect derivatives such as market demand and supply, interest rate, foreign currency exchange rate, indices, commodity prices, equity prices, investor perception and other political or economic factors. Since derivatives are linked to one or multiple underlying interests, the price or value of the derivatives may also be subject to considerable fluctuations due to the risks associated with the underlying interest. The level of sensitivity of an underlying interest with specific market conditions can have wide implications on the value of derivatives linked to that underlying interest. For example, when two or more factors are affecting one or more underlying interests of a derivative, its value may become unpredictable. A small movement in the price of one underlying interest can cause a sudden and large fluctuation in a derivative's value.

Hedging and risk management strategies

Hedging transactions may require constant monitoring. A failure to adjust your hedging transaction in light of changing market conditions may result in the position becoming either under-hedged or over-hedged and losses can ensue.

The placing of certain orders (e.g. "stop-loss" or "stop-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.

Listed derivatives

Under certain market conditions, you may find it difficult or impossible to liquidate or offset an existing position on a marketplace (e.g. buy-to-close or sell-to-close order). This can occur, for example, when the market reaches a daily price fluctuation limit ("daily price limit" or "circuit breakers").

You should ask your dealer about the terms and conditions of the specific derivatives which you are trading and associated obligations. Under certain circumstances the specifications of outstanding contracts may be modified by the marketplace or clearing house to reflect changes in the underlying interest.

Over-the-counter derivatives

Over-the-counter derivatives (OTC derivatives) trading is not done on a marketplace. Your dealer is your trading counterparty. When you sell, your dealer is the buyer and when you buy, your dealer is the seller. As a result, when you lose money trading, your dealer may be making money on such trades, in addition to any fees, commissions, or spreads it may charge.

An electronic trading platform for trading OTC derivatives such as contracts for difference and foreign exchange contracts is not a marketplace. It is an electronic connection for accessing your dealer. You are accessing that trading platform only to transact with your dealer. You are not trading with any other entities or clients of the dealer by accessing such platform. The availability and operation of any such platform, including the consequences of the unavailability of the trading platform for any reason, is governed only by the terms of your account agreement with the dealer.

You are limited to your dealer to offset or liquidate any trading positions since the transactions are not made on a marketplace. As such, it may be difficult or impossible to liquidate an existing position. The customized nature of certain OTC derivatives may also add to illiquidity.

The terms of OTC derivative contracts are generally not standardized, and the prices and characteristics are often individually negotiated with your dealer. A central source to obtain or compare prices may not exist. It may be difficult to assess the value, to determine a fair price or to assess the exposure to risk. You should ask your dealer about the terms and conditions of the OTC derivative contracts you are trading and understand the related rights and obligations.

II. Option Dividend Risk Disclosure

It is important to remember if you are selling options (covered or uncovered), the risk of being assigned is always present. The likelihood of your option being assigned early increases when the underlying security announces an ex-dividend date.

When a dividend for a stock is declared an investor must own the stock before the ex-dividend date to receive the payment. Dividend risk may occur in this situation because short calls are exposed to early assignment. Investors who are looking to receive the dividend payment may exercise a long call option early so that they are eligible to collect the dividend payment. This can occur whether the contract is in the money or not. The investor who wrote (sold) the call option would be responsible to deliver the shares if the option is exercised against them which may put them in a short position. If a short position is held through the ex-dividend date, then the investor would be responsible for paying the dividend on the payable date. This risk exposure can be avoided if an investor closes out the short option the day before the ex-date to prevent them from being assigned early.

Here are a few helpful tips that may help avoid Dividend Risk Exposure when trading options.

Do your research ahead of time. Know if the stock or ETF pays a dividend, and if it does what date will it start trading ex-dividend?

Avoid selling options on dividend-paying stocks or ETFs when your trade includes ex-dividend

Think about investing in European-style options: American-style options can be assigned at any time before the option expires, while European-style options can only be exercised on the day of expiration.

Example:

An investor is Short 1 ABC March 5th \$130 Call and Long 1 ABC March 5th \$135 Call.

- The Ex-dividend date is 3/3/21
- The Dividend Payment \$0.50

In the scenario above the investor is at risk of being assigned early on 3/2/21 which is the day before the ex-date. If the contract is exercised, in addition to the strategy being broken by early assignment the investor could be short 100 shares of ABC on 3/3/21 (ex-dividend date) which means the trader would be responsible to pay the dividend on the payable date. The cost for the trader in this situation would be \$50 (100 shares x \$0.50). If the trader wanted to try and avoid this situation from occurring the trader could buy back the ABC \$130 Call before the end of the trading day on 3/2/21 to flatten out his position and avoid being assigned early, or they could close out the entire strategy.

* Not all dividends are announced with fore-warning – some securities may announce the dividend on the day of the ex-date.

Option trading entails significant risk and is not appropriate for all investors. Option investors can rapidly lose the value of their investment in a short period of time and incur permanent loss by expiration date. Additionally, investors can lose more than their initial investment. You need to complete an options trading application and get approval on eligible accounts. Please read the Characteristics and Risks of Standardized Options and Option Spread Risk Disclosure before trading options.

III. Option Expiration, Exercise, Assignment, and the Potential Risks Disclosure

Option Expiration

Expiration Date is the date on which the option expires. If an option has not been exercised prior to its expiration, it ceases to exist—that is, the option holder no longer has any rights, and the option no longer has any value. The expiration dates for the various options series are fixed by the options market on which the series trades. You should learn the expiration date of each option you wish to buy or write.

Automatic Exercise on Expiration Date

If you hold an expiring long option through expiration date that is a \$0.01 or more in-the-money, the OCC (Options Clearing Corporation) will automatically exercise this option. The OCC will use the official closing price to make this determination. In-the-money would be \$0.01 higher than the strike price for call options and \$0.01 or lower for put options. The automatic exercise will result in your account purchasing or selling the deliverable of the option at the strike price. If you do not want your option to be automatically exercised, then you may submit a Do- Not-Exercise instruction via the app or speaking with a broker. DNE instructions for stock options must be submitted by market close, and for ETF options, no later than 15 minutes after close on expiration.*Please Note: In the event of a corporate action affecting the underlying asset, deliverables are subject to change.

Out-of-the-Money Exercise or At-the-money Exercise on Expiration Date

An option that is out-of-the money or at-the-money will not be automatically exercised by the OCC (remember \$0.01 threshold). However, you may still exercise these options, but you must instruct us to do so. You can submit the exercise instruction in the app or speaking with a broker by 4:15 PM on expiration date or market close on market half days.

Short Options, Assignment & Delivery

Assignment: The owner of a long option has exercised their right against an option writer. Our carrying broker utilizes a random method of allocation for all option(s) assignments received from the OCC. Exercise assignment notices for options contracts are allocated among all customers' short positions within that series. This is accomplished by a manual procedure, which randomly selects from among all customer short positions, including positions established on the day of assignment, those contracts which are subject to exercise.

Delivery: The process of meeting the terms of a written option contract when notification of assignment has been received. In the case of a short equity call, the writer must deliver stock and in return receives cash for the stock sold. In the case of a short equity put, the writer pays cash and in return receives the stock. *Please Note: In the event of a corporate action affecting the underlying asset, deliverables are subject to change.

Out-of-The-Money Short Options

Your short option may be assigned even if it is out-of-the-money or at-the-money. There are certain cases where it may be economical for an out-of-the-money option to be assigned, for example: extended hour market activity or to claim a dividend. Please know that even if your option is out-of-the-money it is by no means an assurance that you will NOT be assigned.

In-the-money Short Options at Expiration

In-the-money short options are also at risk of not being assigned. The long option holder may choose not to exercise the option by submitting a 'Do-Not-Exercise' instruction. There also may be extended session market activity which no longer make the exercise economical. Please know that just because your short option is in-the-money it is by no means an assurance that you WILL be assigned.

Expiration & Account Equity

It is your responsibility to review your expiring option positions and ensure your account has sufficient equity to support an exercise/assignment. Please be sure to read the risks and maintain sufficient equity to support a short option assignment. Please know that even if your option is out-of-the-money it is by no means an assurance that you will NOT be assigned. Please familiarize yourself with the deliverable of the option and the responsibility you incur from the

assignment/exercise process. The resulting position may result in margin charges, hard-to-borrow charges and is subject to market risk.

Webull Auto-Liquidation & Expiration Risk

Webull Securities (Canada) Limited (Webull) may take action in your account. Please note Webull accepts opening same day expiry orders up until 3:00 PM EST, however, we expect every customer to close any out of the money, in the money, or at the money option position at least 35 minutes prior to market close that may pose a risk to your account or to Webull. If you fail to do so you may be subject to be either an auto-liquidation, a do-not-exercise, an exercise, or an assignment, depending on if there's sufficient equity in the account to support the underlying position or not. Webull is under no obligation to take this action and it is expected that each customer manages their positions through expiration and understand the potential risks and characteristics of options.

Webull Securities (Canada) Limited reserves the right to close out options that pose a risk if exercised or assigned.

Spreads & Expiration Risks: Spreads may be known as a 'defined-risk' trade, but this refers to the maximum theoretical max loss or gain of the trade at time of entry. Keyword in the sentence is "theoretical". Spreads at expiration pose a particular risk to your account. Spread Expiration Risk is when there is a creation of an unhedged underlying position in your account from an exercise/assignment. Essentially, if you hold the strategy through expiration, it may lead to a different risk profile and margin requirement. What can happen is as follows:

- The trader establishes a 10-lot short vertical call spread on XYZ that is \$10.00 wide:

Sell 10 XYZ Jun 16 \$100 Call

Buy 10 XYZ Jun 16 \$110 Call

The margin requirement for the above trade is \$10,000.00 – 1000 shares / \$10 wide.

There are two scenarios that can happen.

1) XYZ closes expiration date at \$105.00 pinning between the strikes. The \$100 call will be in-the-money and the \$110 call will expire out-of-the money. Your defined risk trade of \$10,000.00 has now changed to you assuming a potentially a \$100,000.00 assignment through expiration. This is known as 'pin-risk' as the underlying pins between the strikes and should be managed appropriately going into expiration.

2) XYZ closes expiration date at \$99.00 – Both legs are out-of-the-money, and the trader takes no action. XYZ in the extended session has a large price movement and climbs to \$103.00.

In the above situation, the short \$100 call is likely to be assigned but we do not know for sure, and we do not know exactly how many of the 10 contracts will be assigned.

Let us fast forward. On Monday the trader is assigned on 8 of the 10 contracts (random allocation) which results in the account taking delivery on 800 shares of XYZ at \$100.00. XYZ continues to rally to \$115.00 before the short is closed. The trader has now lost \$12,000, \$2,000 greater than the theoretical max loss of the strategy. XYZ happened to be a hard-to-borrow security, and the trader was subsequently charged hard-to-borrow fees for holding the short position over the weekend.

If the inverse were to happen and the long option closed in-the-money, please instruct us to submit a Do-Not-Exercise on your behalf by 4:00PM or market close on expiration date.

You are responsible to understand these risks and managing all risks associated with spreads.

After Expiration

In the event the exercise/assignment results in a Reg T or a Money Due Call – you can avoid restrictions/penalties if you cover the call on T+1 of expiration date.

Early Exercise of Options

If you would like to submit an early exercise request you can do so from the app or by speaking to a broker. Currently, the exercise in-app feature is only for single-leg options. If you would like to submit exercise instructions for an option that is part of a complex strategy you will need to submit verbal or written instructions via in-app feedback. You need to submit the request by 4:15 PM or 15 minutes after market close on market half days. Any requests submitted after 4:15 PM EST will be reviewed on a best-efforts basis. On expiration date you have up until 4:15 PM to submit exercise instruction. If we are unable to process your request, you will receive an exercise cancellation from us and you are free to submit an instruction the next trading day. If you submit your requests after 5:30PM EST or 1.5 hour after market close it will be rejected and you will need to resubmit the instruction next trading day. Once you submit an exercise instruction your option will be frozen until we have submitted the instruction to the OCC. You must maintain sufficient equity or corresponding underlying shares to support the early exercise of a call or a put option contract. Sufficient buying power

Last update: April 2025

or corresponding underlying shares must be held throughout the day until the end of trading at 8 pm. For example, if you are exercising 1 ZYX \$1 Call option you will need to maintain \$100 in buying power in the account until 8 pm on the day the exercise request is submitted. The exercise request is processed overnight, and your position and balances will be updated on the next business day. We are working to make this a real-time process and appreciate your patience!

To reiterate the points – Prior to expiration date you may submit an early exercise request until 4:15PM or 15 minutes after market close. On expiration – you must submit all instructions by 4:15 PM or market close.

Option trading entails significant risk and is not appropriate for all investors. Option investors can rapidly lose the value of their investment in a short period of time and incur permanent loss by expiration date. Additionally, investors can lose more than their initial investment. You need to complete an options trading application and get approval on eligible accounts. Please read the Characteristics and Risks of Standardized Options and Option Spread Risk Disclosure before trading options.

Margin Trading may not be right for everyone. It is important to understand the rules and conditions margin trading or borrowing may have on your investments.

IV. Option Spread Risk Disclosure

Before using our spread order entry screen, options spread traders must understand the additional risks associated with this type of trading.

While it is generally accepted that spread trading may reduce the risk of loss of trading of the outright purchase of a standardized option contract, an investor/trader MUST understand that the risk reduction can lead to other risks.

1. Early exercise and assignment can create risk and loss. Spreads are subject to early exercise or assignment that can remove the very protection that the investor/trader sought. This can lead to margin calls and greater losses than anticipated when the trade was entered. Webull Securities (Canada) Limited reserves the right to close an option position that may be subject to exercise or assignment (in- or out-of-the money), depending upon account equity, buying power, and market conditions.

2. Execution of spread orders is "not held" and discretionary. Spreads are not standardized contracts as are exchanged traded put and calls. Spreads are the combination of standardized put and call contracts. There is NO spread market in securities that are subject such benchmarks such as "time and sales" or "NBBO" (National Best Bid/Offer) and therefore the "market" cannot be "held" to a price.

3. Spreads are executed differently than "legged" orders. Spreads are used by strategists as examples of risk protection, profit enhancement and as a basis for results and return on investments. However, these strategies assume that the trade can actually be executed as a spread when market forces may and can make the actual execution impossible. Spreads are a bona-fide trades and not "legged" or "paired" of individual separate trades. For example: options prices on cross-markets are misleading for the spread trader. An option may be offered on one exchange and bid on another exchange that can lead the trader to believe that their spread trade should be filled, when, in fact, the bids and offers must be on the SAME exchange. As all bona-fide spreads are routed and executed on "one" exchange.

4. Spreads are entered on a single exchange and are acted upon by a market maker. Spreads are executed at the discretion of a market maker and when cancelled or filled require that the market maker take manual action and require manual reporting at times. Delays for reporting of fills and cancels may create additional risks in fast or changing markets. Spreads entered through Webull Securities (Canada) Limited spread order entry screen are ALWAYS entered as spreads and as such are subject to the market risk and conditions as explained above.

V. Option Strategies Disclosure

Risks for Level 1 Option Strategies – Writing Covered Calls and Cash Secured Puts

- Writing Covered Calls and Cash Secured Puts can theoretically result in total losses less the premium received from the sale.
- Unrealized losses on the short option position can be substantial and result in permanent realized losses if closed before expiration date.
- By writing an option which is fully collateralized by a deliverable you accept the market risk of the underlying stock position.

Risks for Level 2 Option Strategies – Long Calls and Puts

- Purchasing Long Calls and Puts can result in losing up to 100% of your invested capital in a short amount of time.
- Options will expire worthless by the expiration date if they expire out of the money.
- To exercise an option, an account needs sufficient equity to support the resulting transaction otherwise the option may be liquidated at any time to mitigate risks.

Risks for Level 3 Option Strategies – Multi-leg Spreads

- You can lose more than 100% of the initial outlay of funds to enter a spread position.

Last update: April 2025

- A short leg of a position can be assigned after the market close on the expiration date, resulting in a stock position which can be closed at a greater loss than the initial max defined loss of the spread.
- Spreads can be opened and closed at uneconomical prices so it is important to get a good price on all legs so the cost doesn't exceed the maximum profit.

Risks for Level 4 Option Strategies – Naked Short Selling

- You can lose more than 100% of the initial deposit of funds to enter a naked option.
- A naked short position can be assigned at any time, even after the market close on the expiration date, resulting in a stock position which can be closed at a greater loss than the initial margin requirement.
- You may be required to deposit additional funds in order to maintain your naked option position.
- Unrealized losses on the short option position can be substantial and result in permanent realized losses if closed before expiration date.
- Theoretically, short option positions have an unlimited loss potential.

The risks listed above are not exhaustive of all the risks you may encounter. Any loss that occurs as a result of any unforeseen risks not specified here do not bind Webull Canada as liable to damages.