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## CONFIDENTIAL OFFERING MEMORANDUM



## FRONT STREET ENERGY OPPORTUNITIES FUND INC.

July 31, 2016

### **Private Placement of Series B Shares and Series F Shares of FRONT STREET ENERGY OPPORTUNITIES FUND INC. (An investment fund corporation established under the laws of Canada)**

The continuous offering of Series B and Series F non-voting participating equity shares (collectively, the “**Shares**”) of Front Street Energy Opportunities Fund Inc. (the “**Fund**”) by way of private placement in each of the provinces and territories of Canada (the “**Canadian Offering Jurisdictions**”), and to investors outside of Canada, is being made solely by this Memorandum.

The distribution of Shares pursuant to this Memorandum is being made only on a private placement basis and is exempt from the requirement that the Fund prepare and file a prospectus with Canadian securities regulatory authorities.

Shares are being offered, subject to satisfaction of applicable regulatory requirements, at a minimum subscription of: (i) \$5,000 to “**accredited investors**” (as such term is defined in National Instrument 45-106 – *Prospectus Exemptions*) resident in any Canadian Offering Jurisdiction; and (ii) \$25,000 to investors outside of Canada. See “*Details of the Offering*”. Shares will be offered as at the first business day of any month, at the applicable Series Net Asset Value per Share (as defined under “*Net Asset Value*”) calculated on the last business day prior to such day.

The Fund is managed by Front Street Capital 2004 (in such capacity, the “**Manager**”) and also advised by Front Street Capital 2004 (in such capacity, the “**Investment Advisor**”). The principal office of the Fund, the Manager and the Investment Advisor is located at 33 Yonge Street, Suite 600, Toronto, Ontario, M5E 1G4; telephone number: 1-800-513-2832; fax number: 416-364-8893; and e-mail: [advisorservice@frontstreetcapital.com](mailto:advisorservice@frontstreetcapital.com). Normand G. Lamarche is an officer of the Manager and Investment Advisor and will have primary responsibility for providing portfolio management services to the Fund.

The Fund’s investment objective is to achieve maximum capital appreciation and to provide long-term capital growth by investing in a portfolio (the “**Portfolio**”) consisting of securities related to the energy sector. The Fund

will invest primarily in equities and other securities of companies involved directly or indirectly in the energy sector. See “*Investments of the Fund – Investment Objective*”.

The Fund will make its investment selections based predominantly on the merits of specific companies and their management teams. The Fund will maintain a specific investment focus and will endeavour to manage the Portfolio by focusing on the purchase of equity and equity-related securities of business entities in the energy area. Capital growth will be targeted through the selection and strategic trading of both long and short positions in equity and derivative securities.

The Portfolio will include securities which the Investment Advisor believes are undervalued and may include short positions in securities which the Investment Advisor believes are overvalued. The Investment Advisor will manage the relative weightings of the Fund’s long and short positions to achieve the Fund’s investment objective. From time to time, the Fund may hold its investments directly or indirectly through one or more subsidiary or affiliate corporations if the Manager determines that such structure would be advantageous to the Fund from a financial or tax perspective. See “*Investments of the Fund – Investment Strategies*”.

Transfers of Shares are restricted and purchasers may be prohibited from transferring their Shares for an indefinite period. See “*Resale Restrictions*”. Subject to the Fund’s ability to suspend redemptions (as described herein), a holder of Shares (a “**Shareholder**”) may redeem Shares on the last business day of each month at the Series Net Asset Value per Share upon providing not less than thirty (30) days’ notice to the Manager. The Manager may also redeem a Shareholder’s Shares if the Manager determines that such redemption is necessary or desirable due to regulatory requirements. See “*Redemption of Shares*”.

***Although the Fund is a “mutual fund” as defined in the securities legislation applicable in certain provinces and territories, it is not a reporting issuer in any province or territory and does not operate in accordance with National Instrument 81-102 – Investment Funds and the other requirements of Canadian securities regulation applicable to mutual funds that are reporting issuers or equivalent. Accordingly, investor protections contained in those requirements are not available to purchasers of Shares.***

The Fund does not intend to pay regular dividends.

The Fund does not currently qualify as a “public corporation” for purposes of the *Income Tax Act* (Canada) and the regulations thereunder (the “**Tax Act**”). As a result, the Shares are not qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts. **Investors should consult their own tax advisors to satisfy themselves as to the applicable tax consequences of an investment in Shares.**

The Fund may be terminated in accordance with its articles and, after paying, retiring or discharging or making provision for the payment, retirement or discharge of all known liabilities of the Fund, its net assets will be distributed thereafter to Shareholders. See “*Termination of the Fund*”.

There is no guarantee that the Fund will meet its investment objective or that an investment in the Fund will earn any positive return. An investment in Shares is speculative and appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. See “*Risk Factors*” for a discussion of factors that should be considered by prospective investors and their advisors in assessing the appropriateness of an investment in Shares, including reliance being placed on the knowledge and expertise of the Investment Advisor.

**Shares are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under provisions of that Act or any other legislation.**

There are important tax consequences to be considered by purchasers of Shares. See “*Canadian Federal Income Tax Considerations*” for a summary of such consequences to certain Canadian investors. Prospective investors should not construe the contents of this Memorandum as legal, tax, investment or accounting advice, and each prospective investor is advised to consult with its own advisors with respect to the consequences of its investment in the Fund.

If there is a misrepresentation in this Memorandum, certain purchasers resident in the provinces of Ontario, Alberta, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island and Saskatchewan and in each of the territories may, in certain circumstances, be provided with a remedy for rescission or damages. See “*Purchasers’ Rights*”.

The delivery of this Memorandum does not imply that any information contained herein is correct as of any date subsequent to the date of this Memorandum. This Memorandum replaces and supersedes all previously-dated offering documents of the Fund.

Front Street Capital 2004 currently acts as the investment fund manager and portfolio manager of the Fund. The Manager receives a management fee from the Fund in connection with its services as manager. The Investment Advisor may also act as an exempt market dealer for the distribution of Shares to investors resident in Ontario and Alberta, but receives no fee for acting in such capacity. As a result of the foregoing relationships, the Fund may be considered a related and/or connected issuer of the Manager and Investment Advisor under applicable securities legislation. Additionally, Tuscarora Capital Inc., a registered investment dealer, may sell Shares to its clients and may charge a fee in respect of any such sales. Tuscarora Capital Inc. and the Investment Advisor are owned by the same ownership group and, as a result, the Fund may be considered a related and/or connected issuer of Tuscarora Capital Inc. Please see “Subscription Procedures”, “Risk Factors – Conflicts of Interest” and “Interest of Management and Others in Material Transactions” in this Offering Memorandum.

*All dollar amounts referred to in this Memorandum are expressed in Canadian dollars, unless otherwise indicated.*

*This Memorandum may include certain forward-looking information, including statements relating to business and operating strategies, plans and prospects, using words including “anticipate”, “believe”, “could”, “expect”, “intend”, “may”, “plan”, “potential”, “project”, “seek”, “should”, “will”, “would” and similar expressions, which are intended to identify a number of these forward-looking statements. This forward-looking information reflects current views with respect to current events and is not a guarantee of future performance and is subject to risks, uncertainties and assumptions. Actual results may differ materially from information contained in the forward-looking information as a result of a number of those material factors. The Fund undertakes no obligation to publicly update or revise any forward-looking information contained in this Memorandum, except as required by applicable laws, rules and regulations. Readers are urged to consider these factors carefully in evaluating forward-looking information.*

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## GLOSSARY

<b>affiliate</b>	<p>With respect to any person or persons, another person controlled by, controlling or under common control with, such person or persons, and:</p> <ul style="list-style-type: none"><li>(i) a corporation shall be deemed to be controlled by another person or persons if (A) voting securities of the corporation carrying more than 50% of the votes for the election of directors are held, otherwise than by way of security only, by or for the benefit of the other person or by or for the benefit of the other persons; and (B) the votes carried by such securities are entitled, if exercised, to elect a majority of the board of directors of the corporation;</li><li>(ii) a partnership that does not have directors, other than a limited partnership, shall be deemed to be controlled by another person or persons if the other person or persons holds more than 50% of the interest in the partnership; and</li><li>(iii) a limited partnership shall be deemed to be controlled by another person if the other person is the general partner of the limited partnership.</li></ul>
<b>convertible securities</b>	Securities (usually preferred shares or bonds) of an issuer that are convertible into a specified number of other securities (usually common shares) of the issuer.
<b>Extraordinary Resolution</b>	A resolution passed, with or without amendment, by affirmative vote of at least 66 <sup>2</sup> / <sub>3</sub> % of the votes cast, either in person or by proxy, at a meeting of Shareholders called for the purpose of approving such resolution.
<b>FundSERV</b>	The clearing and settlement service operated by FundSERV Inc., which enables FundSERV Participants to clear certain financial product transactions between themselves, to settle the payment obligations arising from such transactions, and to make other payments between themselves.
<b>FundSERV Participants</b>	Securities brokers and dealers who are participants in FundSERV.
<b>hedge</b>	A strategy used to offset, in whole or in part, an investment risk arising from a long or short position in securities.
<b>illiquid asset</b>	An asset that cannot be readily disposed of through market facilities on which public quotations in common use are widely available at an amount that at least approximates the amount at which the asset is valued in calculating Net Asset Value, or a security, the resale of which is prohibited by a representation, undertaking or agreement by the Fund or by the predecessor in title of the Fund.
<b>long position</b>	An investment position in an issuer in which an investor has ownership of securities of the issuer.
<b>Manager</b>	Front Street Capital 2004, or such other manager appointed by the Fund from time to time, and any successor thereto.
<b>mark-to-market</b>	To adjust the valuation of a security or portfolio to reflect current market value.
<b>NAV Valuation Date</b>	The date that is (a) the Thursday of each week of each fiscal year, or, if Thursday is not a business day, the immediately preceding business day; (b) the last business day of each month; and (c) such other day or days as the Manager of the Fund shall determine from time to time.

<b>Net Asset Value or NAV</b>	The net asset value of the Fund which, on any date, will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund on that date. See “ <i>Net Asset Value</i> ”.
<b>Net Change in Non-Portfolio Assets</b>	<p>The Net Change in Non-Portfolio Assets for the Fund on a NAV Valuation Date means:</p> <ul style="list-style-type: none"> <li>(i) the aggregate of all income accrued by the Fund on that NAV Valuation Date, including cash dividends and distributions, interest and compensation; plus (or minus)</li> <li>(ii) any increase (or decrease) in the value of any non-portfolio assets or liabilities stated in any foreign currency accrued on that NAV Valuation Date, including, without limitation, cash, accrued dividends or interest and any receivables or payables; plus (or minus)</li> <li>(iii) any gain (or loss) resulting from transfers of currencies accrued on that NAV Valuation Date; and plus (or minus)</li> <li>(iv) any addition (or subtraction) in respect of any other item accrued on that NAV Valuation Date which is determined by the Manager to be relevant in determining Net Change in Non-Portfolio Assets.</li> </ul>
<b>Ordinary Resolution</b>	A resolution passed, with or without amendment, by the affirmative vote of at least 50% of the votes cast, either in person or by proxy, at a meeting of Shareholders (or a series thereof) called for the purposes of considering such resolution.
<b>person</b>	Any individual, corporation, unlimited liability corporation, limited partnership, general partnership, limited liability partnership, joint stock company, joint venture, association, company, limited liability company, bank, trust company, government, government department or agency, or other entity or organization whether incorporated or not.
<b>Series</b>	A series of Shares of the Fund.
<b>Series B Shares</b>	Series B Shares of the Fund.
<b>Series F Shares</b>	Series F Shares of the Fund.
<b>Series Net Asset Value</b>	The Net Asset Value for a series of Shares, calculated in accordance with the formula outlined under “ <i>Net Asset Value</i> ”.
<b>Shareholder</b>	A holder of Shares of the Fund.
<b>Shares</b>	The non-voting participating equity shares of the Fund, issuable in series.
<b>short position</b>	An investment position in an issuer in which an investor has made a short sale of an issuer’s securities and has not yet purchased securities to replace the securities that were borrowed to complete the short sale.
<b>short sale</b>	The sale of securities that are not owned by the seller (and which, for the purposes of settling a short sale, are borrowed by the seller) in the expectation of purchasing the same securities at a later date at a lower price than the price for which such securities were sold by the seller.
<b>Tax Act</b>	The <i>Income Tax Act</i> (Canada) and the regulations thereunder.

## SUMMARY

The following is a summary of the principal features of this distribution and should be read together with the more detailed information contained elsewhere in this Memorandum. Capitalized terms used but not defined in this Summary have the meanings ascribed to those terms in the Glossary.

### The Offering

**Issuer:** Front Street Energy Opportunities Fund Inc. (the “**Fund**”), a corporation incorporated under *Canada Business Corporations Act*.

**Offering and Offering Price:** A continuous offering of Series B Shares and Series F Shares of the Fund (collectively, the “**Shares**”) to investors resident in any province or territory of Canada (the “**Canadian Offering Jurisdictions**”). Shares are also being offered to investors outside Canada.

The Fund is authorized to issue an unlimited number of Shares in one or more series. Initially, Series B Shares and Series F Shares have been authorized. Each Share of a series represents an undivided interest in the net assets of the Fund applicable to that series. Each Share has equal rights with respect to voting, liquidation and other events in respect of the Fund. See “*Description of the Shares*”.

Shares may be purchased as at the first business day of any month (each, a “**Closing Date**”) at a purchase price per Share equal to the applicable Series Net Asset Value per Share on the last business day prior to the Closing Date, if the Manager (as defined below) receives through the facilities of FundSERV or directly the required payment no later than 4:00 p.m. (Toronto time) on the last business day prior to the Closing Date. A duly completed and executed subscription agreement must be provided to the Manager no later than 4:00 p.m. (Toronto time) on the fifth business day following the Closing Date. See “*Subscription Procedures*”.

**Minimum Initial Investment:** Shares are being offered, subject to satisfaction of applicable regulatory requirements, at a minimum subscription of: (i) \$5,000 to “accredited investors” (as such term is defined in National Instrument 45-106 - *Prospectus Exemptions*) resident in any Canadian Offering Jurisdiction; and (ii) \$25,000 to investors outside of Canada. See “*Details of the Offering*”.

These minimums are net of any front end commission paid by an investor to his or her own agent or broker.

**Additional Investments:** Each holder of Shares (a “**Shareholder**”) may make additional investments in Shares from time to time in amounts of \$5,000 or any multiple thereof, provided that, if the investor is resident in Canada at such time the Shareholder is an accredited investor.

**Investment Objective:** The Fund’s investment objective is to achieve maximum capital appreciation and to provide long-term capital growth by investing in a portfolio (the “**Portfolio**”) consisting of securities related to the energy sector. The Fund will invest primarily in equities and other securities of companies involved directly or indirectly in the energy sector.

**Investment Strategies:** Front Street Capital 2004 (in its capacity as investment advisor of the Fund, the “**Investment Advisor**”) is responsible for the investment of the Fund’s assets. The Investment Advisor will develop and manage a portfolio of investments related to the energy sector with the objective of achieving capital appreciation.

To meet the Fund's investment objective of achieving maximum capital appreciation and to provide long-term capital growth, the Fund will invest in a portfolio (the "**Portfolio**") consisting primarily of equity and other securities of small and medium-sized business entities in a range of energy-related industries, including oil and gas exploration and development, production, servicing and drilling, the power generation market, including coal, liquefied natural gas, nuclear and electricity, and alternative energy-related projects, as well as other related natural resource sector industries.

The Fund will make its investment selections based predominantly on the merits of specific companies and their management teams. The Fund will maintain a specific investment focus and will endeavour to manage the Portfolio by focusing on the purchase of equity and other securities of business entities in the energy sector. Capital growth will be targeted through the selection and strategic trading of both long and short positions in equity, debt and derivative securities.

The Portfolio will include securities which the Investment Advisor believes are undervalued and may include short positions in securities which the Investment Advisor believes are overvalued. The Investment Advisor will manage the relative weightings of the Fund's long and short positions to achieve the Fund's investment objective.

**Manager:** Front Street Capital 2004 (in its capacity as manager of the Fund, the "**Manager**") is responsible for providing or arranging for the provision of administrative services required by the Fund. See "*Management of the Fund – The Manager*".

**Investment Advisor:** The Investment Advisor provides investment advisory and portfolio management services to the Fund. Nevin Markwart, Frank L. Mersch, Normand G. Lamarche, Susan Johnson and Terence Lui, who together have over 100 years of experience in the investment industry, are the officers of the Investment Advisor. Mr. Lamarche will have primary responsibility for providing portfolio management services to the Fund.

The Investment Advisor also acts as the investment advisor and/or investment fund manager of several other investment vehicles, including: Front Street Tactical Bond Fund, Front Street Growth Fund and the classes of Front Street Mutual Funds Limited, all public mutual funds; and Front Street Hedge Fund and Front Street Canadian Energy Resource Fund, both private investment trusts.

An affiliate of the Investment Advisor may provide brokerage services to the Fund from time to time, provided that the execution, prices and terms of such services are no less favourable to the Fund than those generally offered by other brokers and dealers.

See "*Management of the Fund – The Investment Advisor*".

**Investment Restrictions:** The investment activities of the Fund are conducted in accordance with certain restrictions, which include the following:

*Cash.* At the discretion of the Investment Advisor, the Portfolio may be invested entirely in cash or cash equivalents.

*Sole Undertaking.* The Fund will not engage in any undertaking other than the investment of the Fund's assets in accordance with the Fund's investment objective and investment strategies.

*Liquidity.* The Fund will not purchase any securities of an issuer if, immediately after the purchase, more than 25% (based on cost amount) of the assets of the Fund is

invested directly in illiquid securities (defined as securities which the Investment Advisor determines may not be sold or disposed of in the ordinary course of business within seven days at approximately the value ascribed to them by the Fund).

*Leverage.* The Fund may employ leverage of up to 25% of the Net Asset Value of the Fund.

*Purchasing Securities.* The Fund will not purchase securities other than through normal market facilities unless the purchase price thereof approximates the prevailing market price as negotiated or established by parties who are at arm's length with the Manager and the Investment Advisor. If an affiliate of the Investment Advisor provides brokerage services to the Fund, the execution, prices and terms of such services must be no less favourable than those generally offered by other brokers and dealers.

*Fixed Price.* The Fund will not purchase any security which may by its terms require the Fund to make a contribution in addition to the payment of the purchase price (other than pursuant to a permitted derivative transaction), provided that such restriction will not apply to the purchase of securities which are paid for on an instalment basis where the total purchase price and the amount of all such instalments are fixed at the time the first instalment is paid.

*Interest of Investment Advisor.* The Fund will not purchase securities from, or sell securities to, the Investment Advisor or any of its affiliates or any officer, director or shareholder of any of them, any person managed by the Investment Advisor or any of its affiliates, or any person in which any officer, director or shareholder of the Investment Advisor or any of its affiliates may have a material interest (which, for these purposes, includes beneficial ownership or more than 10% of the voting securities of such person).

*Commodities.* The Fund will not purchase any physical commodity, but may purchase and sell commodity futures or options on futures (subject to the Investment Advisor obtaining any necessary registrations under the *Commodity Futures Act* (Ontario)), options, forward contracts or swaps. The Fund will not purchase such physical commodities if, immediately after the purchase, the total amount invested by the Fund in such commodities would exceed 10% of the Net Asset Value of the Fund.

*Control Restrictions.* The Fund will not purchase a security of an issuer if, immediately after the purchase, the Fund would hold securities representing more than 10% of either the votes attaching to the outstanding voting securities of that issuer or the outstanding equity securities of that issuer, or purchase a security for the purpose of exercising control over or management of the issuer of the security. If the Fund acquires a security other than as the result of a purchase and the acquisition results in the Fund exceeding the 10% limit described in this paragraph, the Fund will, as quickly as is commercially reasonable, reduce its holdings of those securities so that it does not hold securities exceeding such limits.

*Net Asset Value Restriction.* The Fund will not purchase a security of an issuer if, immediately after the purchase, the total amount invested by the Fund in such issuer exceeds 15% of the Net Asset Value of the Fund. If at any time more than 15% of the Net Asset Value consists of securities of any one issuer, the Investment Advisor will, as quickly as is commercially reasonable, take all necessary steps to reduce the percentage of Net Asset Value represented by such securities to 15% or less.

*Tax-Related Investment Restrictions*

- (a) The Fund will not acquire or continue to hold any property that would be “taxable Canadian property” if the definition of that term in the Tax Act were read without reference to paragraph (b) thereof, if such property exceeds 10% of all property owned by the Fund.
- (b) the issuers of securities held by the Fund will not be foreign affiliates of the Fund;
- (c) if the Fund has qualified to be a mutual fund corporation for purposes of the Tax Act, the Fund will not take any action that would cause it to cease to be a mutual fund corporation for purposes of the Tax Act;
- (d) the securities held by the Fund will not be: (i) securities of or an interest in any non-resident entity, an interest in or a right or option to acquire such property, or an interest in a partnership which holds any such property if the Fund (or the partnership) would be required to include any significant amounts in income pursuant to section 94.1 of the Tax Act, (ii) an interest in a trust (or a partnership which holds such an interest) which would require the Fund (or the partnership) to report income in connection with such interest pursuant to the rules in section 94.2 of the Tax Act, or (iii) any interest in a non-resident trust (or a partnership which holds such an interest) other than an “exempt foreign trust” for the purposes of section 94 of the Tax Act; and
- (e) none of the securities held by the Fund will be tax shelter investments (for purposes of the Tax Act).

The Manager reserves the right to amend (without approval of Shareholders) the Fund’s Articles in respect of the Fund’s investment objective, investment strategies or investment restrictions. No such change may be made unless 90 days’ prior written notice is given to each Shareholder. See “*Investments of the Fund – Investment Restrictions*”.

**Redemption Rights:**

**Monthly Redemption Right:** Subject to the Fund’s right to suspend redemptions (as described below), Shares may be surrendered at least 30 days prior to the last business day of each month (each a “**Redemption Date**”) for redemption on such Redemption Date. Shares so surrendered for redemption by the holder thereof to the Manager will be redeemed on such Redemption Date for a redemption price equal to the applicable Net Asset Value per Share on such Redemption Date and the holder will receive payment of such redemption price on or before the 30<sup>th</sup> business day following such Redemption Date (the “**Redemption Payment Date**”), less any costs associated with the redemption and any early redemption charge. See “*Redemption of Shares*”.

**In Specie Redemption:** At the option of the Manager, in its discretion, payment of all or part of any redemption price may be made *in specie*, on a *pro rata* portion of the Portfolio. Currently, the Manager expects to pay redemption proceeds *in specie* where the Fund has received redemption requests for Shares representing in excess of 5% of the Net Asset Value of the Fund for redemption on a particular Redemption Date.

**Suspension of Redemptions:** The Fund may suspend the redemption of Shares or payment of redemption proceeds in respect of any Redemption Date (i) for the whole or any part of a period during which normal trading is substantially restricted or suspended on any stock exchange, options exchange or futures exchange within or outside Canada on which securities are listed and traded, if those securities represent

more than 50% by value of the Net Asset Value of the Fund; or (ii) during any other period not exceeding 120 days in which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability to determine the value of the assets of the Fund.

**Early Redemption Charge:** Shares held by a Shareholder for less than twelve (12) months will be subject to an early redemption charge of 2.00% of the Net Asset Value of such Shares.

**Dividends /  
Distributions**

The Fund does not intend to pay regular dividends. See “*Dividends*”.

**Use of Proceeds:**

The Fund will use the net proceeds of the offering to acquire securities in accordance with the Fund’s investment objective and strategies. See “*Use of Proceeds*”.

**Prime Broker/  
Custodian:**

CIBC World Markets Inc. is the custodian of the assets of the Fund (the “**Custodian**”). The Custodian is also the prime broker for the Fund. See “*Management of the Fund – The Custodian*”.

**Registrar & Transfer  
Agent**

CIBC Mellon Global Securities Services Company acts as the registrar and transfer agent for the Shares and performs certain other administrative services for the Fund under an agreement dated October 29, 2015, as amended.

**Auditors:**

Segal LLP are the auditors of the Fund.

**Eligibility for  
Investment:**

The Fund does not currently qualify as a “public corporation” as defined in the Tax Act. As a result, the Shares are not “qualified investments” (as that term is defined in the Tax Act) for trusts governed by registered retirement saving plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts (“**Registered Plans**”).

**Termination:**

The Fund has no fixed termination date. The Fund may be terminated in accordance with the terms of the Articles. The Manager may, in its discretion, terminate the Fund if, in the opinion of the Manager, it would be in the best interests of the Shareholders. The Manager must give 60 days’ prior written notice to the Shareholders of any proposed termination of the Fund. See “*Termination of the Fund*”.

**Year-end:**

December 31.

**Canadian Federal Income Tax Considerations**

See “*Canadian Federal Income Tax Considerations*” for a summary of certain Canadian tax consequences applicable to an investment in Shares.

**Each investor should satisfy itself as to the federal and provincial or territorial tax consequences of an investment in Shares by obtaining advice from its tax advisor. Investors not resident in Canada should consult their own tax advisors to satisfy themselves as to the applicable tax consequences of an investment in Shares.**

**Risk Factors**

An investment in Shares is subject to certain risk factors that should be considered by prospective investors and their advisors, including:

- (a) the Fund's performance will depend on the knowledge and expertise of the Investment Advisor and the services of Mr. Lamarche;
- (b) there is no assurance that the Fund will be able to achieve its investment objective;
- (c) the value of securities owned by the Fund will be affected by factors beyond the control of the Investment Advisor or the Fund;
- (d) the risk associated with investing in smaller capitalized companies;
- (e) risks associated with energy-based issuers;
- (f) the Fund may invest in illiquid assets and there can be no assurance that the Fund will be able to dispose of such investments;
- (g) short sales of securities will expose the Fund to losses if the value of the securities sold short increases, because the Fund may be required to purchase such securities in order to cover its short position at a higher price than the price at which such securities were sold short;
- (h) liquidity and counterparty risk associated with covered call options, cash covered put options and other derivatives;
- (i) risks associated with the use of short-term margin borrowings and other leveraging strategies by the Fund;
- (j) risks associated with investments in debt securities, including debt securities which have low ratings from credit rating agencies or which are unrated;
- (k) there can be no assurance that the Fund's borrowing strategy will enhance returns and, in fact, the strategy may reduce returns (both annual dividends and capital);
- (l) the use of derivatives involves numerous risks and there can be no assurance that the Fund's use of derivatives will be successful;
- (m) the Shares will not be transferable except in limited circumstances and subject to compliance with resale restrictions under applicable securities laws;
- (n) risks relating to the taxation of the Fund or the Shareholders including any changes in tax laws or the application of such laws to the Fund or the Shareholders;
- (o) changes in securities laws, or the application of such laws to the Fund, could adversely affect the Fund or Shareholders;
- (p) the Fund may be subject to various conflicts of interests due to the fact that the Manager and the Investment Advisor are engaged in other business activities;
- (q) foreign investments made by the Fund may be subject to political risks and risks associated with foreign exchange rates and exchange controls;
- (r) substantial redemptions of Shares may require the Fund to sell assets it would not otherwise sell and at less than optimal prices, which could adversely affect the value of the Shares;
- (s) the estimated Performance Bonus, if any, will be accrued on each NAV Valuation Date as a liability of the Fund, reducing the Net Asset Value and therefore the price at which Shares may be

redeemed, notwithstanding that the accrual of such Performance Bonus may subsequently be reversed;

- (t) the Fund has little operating or no performing history;
- (u) the Fund is not subject to National Instrument 81-102 – Investment Funds and other regulations that are applicable to mutual funds that are reporting issuers;
- (v) the Fund might be subject to significant indemnification obligations in respect of the Manager, the Investment Advisor or certain parties related to them and any indemnification paid by the Fund would reduce the Fund’s Net Asset Value; and
- (w) no underwriter has been involved in establishing the terms of this offering or the structure of the Fund or in reviewing and investigating the background of the Manager and the Investment Advisor.

There can be no assurance that the Fund will meet its investment objective or that an investment in Shares will earn any positive return. An investment in Shares is speculative and appropriate only for investors who have the ability to absorb a loss of some or all of their investment. See “*Risk Factors*”.

#### **Summary of Fees**

The following table contains a summary of the fees payable by the Fund and by the Manager. For further particulars, see “*Fees*”.

<u>Type of Charge</u>	<u>Description</u>
<b>Fees Payable by the Fund</b>	
<b>Monthly fee payable to the Manager</b>	Within 10 business days after the end of each month, the Fund will pay the Manager a fee equal to one-twelfth of (i) 1.50% of the Series Net Asset Value in respect of the Series B Shares; and (ii) 1.0% of the Series Net Asset Value in respect of the Series F Shares, based on the month-end Series Net Asset Value for such month (calculated without regard to such fee) plus applicable taxes and related expenses. The Manager will pay any fees owing to the Investment Advisor out of its management fee.
<b>Performance Bonus</b>	<p>The Manager may also earn an annual performance bonus. If earned, the Fund will pay the Manager on an annual basis in respect of each fiscal year of the Fund and not later than 90 days after the end of each fiscal year, a performance bonus per Share of the Series B Shares and Series F Shares (the “<b>Performance Bonus</b>”) equal to 15% of the amount by which the aggregate of:</p> <ul style="list-style-type: none"><li>(a) the Series Net Asset Value per Share for the relevant series at the end of such fiscal year (without regard to any accrual of the Performance Bonus); and</li><li>(b) any dividend per Share of such series declared during such year,</li></ul> <p>exceeds the Series Net Asset Value per Share for such series at the beginning of such fiscal year, plus applicable taxes; provided that no Performance Bonus shall be payable with respect to any fiscal year of the Fund unless the Fund generates an annual return on investment in respect of such series of at least 5% in such fiscal year and provided that the Series Net Asset Value per Share (including dividends) for the relevant series is greater than all previous values at the end of each previous fiscal year in which a Performance Bonus was paid. For this purpose, “return on</p>

**Type of Charge****Description**

investment” in respect of a series of Shares for a fiscal year shall be calculated by dividing (i) the amount by which the aggregate of the Series Net Asset Value per Share for the relevant series at the end of such fiscal year and any per Share dividend declared during such year in respect of the Shares of such series exceeds the Series Net Asset Value per Share for such series at the beginning of such fiscal year by (ii) the Series Net Asset Value per Share for the relevant series at the beginning of such fiscal year.

**Operating and Administrative Expenses:**

The Fund is responsible for payment of all Fund operating and administrative expenses. The main components of these expenses are legal and accounting fees, printing expenses, reporting issuer filing and sustaining fees (including the portion of the regulatory fees paid by the Manager that are attributable to the Fund), custodial fees and expenses of making dividends to Shareholders. The Manager may, in some cases, pay a portion of the Fund’s operating expenses. As the Fund has more than one Series, the Shareholders of each Series bear their *pro rata* share of those expenses which are common to the operation of all Series as well as those expenses which are attributable solely to that Series.

In addition, the Fund may incur brokerage commissions and other portfolio transaction costs, including any goods and services or harmonized sales tax applicable to such costs. Because they are not included in the MER, the trading expenses are not included as part of operating expenses.

**Fees Payable by the Manager****Investment Advisory Fee**

All fees payable to the Investment Advisor for investment advisory services provided to the Fund shall be paid from the management fee payable to the Manager.

**Servicing Fee**

Any Servicing Fee shall be borne by the Manager and paid out of the management fee paid to the Manager. Currently, the Manager intends to pay a Servicing Fee of 0.50% of the Series Net Asset Value in respect of the Series B Shares that each dealer’s clients have placed in the Fund. The Servicing Fee is calculated based on the closing balance of client accounts for each calendar month and paid monthly. The Servicing Fee will not be paid if the client’s assets are removed from the Fund.

**Fees Payable by Investors****Sales Charges Payable Directly by Investors**

Neither the Fund nor the Manager charge a fee or commission when investors purchase Shares; however, an investor’s dealer or advisor may charge an initial sales charge of up to 5% at the time of purchase of Series B Shares, which will reduce the amount of money that investor invests in the Series B Shares. This is a separate agreement between an investor and the dealer or advisor.

**Early Redemption Charge**

Shares held by a Shareholder for less than twelve (12) months will be subject to an early redemption charge of 2.00% of the Net Asset Value of such Shares.

## THE FUND

Front Street Energy Opportunities Fund Inc. (the “**Fund**”) is an investment corporation incorporated pursuant to articles of incorporation (the “**Articles**”) under the *Canada Business Corporations Act*. The business of the Fund is to invest in accordance with its investment objective and investment strategies, subject to its investment restrictions.

Front Street Capital 2004 is the manager of the Fund (in such capacity, the “**Manager**”). The principal office of the Fund and the Manager is located at 33 Yonge Street, Suite 600, Toronto, Ontario, M5E 1G4; telephone number: 1-800-513-2832; fax number: 416-364-8893; and e-mail: [advisorservice@frontstreetcapital.com](mailto:advisorservice@frontstreetcapital.com).

The beneficial interest in the net assets and net income of the Fund is currently divided into two series of non-voting participating equity shares (the “**Shares**”), designated as Series B Shares (the “**Series B Shares**”) and Series F Shares (the “**Series F Shares**”).

The descriptions below of the Management Agreement and the Investment Advisory Agreement are summaries only and are qualified in their entirety by reference to the text of the Management Agreement or the Investment Advisory Agreement, as the case may be.

### Status of the Fund

The Fund is not a “mutual fund” that is a reporting issuer or equivalent for securities law purposes. As a result, the protections provided to investors in mutual funds that are reporting issuers or equivalent under such laws are not available to investors in the Shares.

## INVESTMENTS OF THE FUND

### Investment Objective

The Fund’s investment objective is to achieve maximum capital appreciation and to provide long-term capital growth by investing in a portfolio (the “**Portfolio**”) consisting of securities related to the energy sector. The Fund will invest primarily in equities and other securities of companies involved directly or indirectly in the energy sector.

### Investment Strategies

Front Street Capital 2004 (in its capacity as portfolio advisor, the “**Investment Advisor**”) is also responsible for the investment of the Fund’s assets. The Investment Advisor will develop and manage a portfolio of investments related to the energy sector with the objective of achieving capital appreciation.

To meet the Fund’s investment objective of achieving maximum capital appreciation and to provide long-term capital growth, the Fund will invest in a portfolio (the “**Portfolio**”) consisting primarily of equity and other securities of small and medium-sized business entities in a range of energy-related industries, including oil and gas exploration and development, production, servicing and drilling, the power generation market, including coal, liquefied natural gas, nuclear and electricity, and alternative energy-related projects, as well as other related natural resource sector industries.

The Fund will make its investment selections based predominantly on the merits of specific companies and their management teams. The Fund will maintain a specific investment focus and will endeavour to manage the Portfolio by focusing on the purchase of equity and other securities of business entities in the energy sector. Capital growth will be targeted through the selection and strategic trading of both long and short positions in equity, debt and derivative securities.

The Portfolio will include securities which the Investment Advisor believes are undervalued and may include short positions in securities which the Investment Advisor believes are overvalued. The Investment Advisor will manage the relative weightings of the Fund’s long and short positions to achieve the Fund’s investment objective. The Fund may purchase puts, calls or combinations thereof including options to acquire additional securities or rights to sell

securities of the small and medium-sized businesses in which it invests. The Fund may lend its portfolio securities and may purchase securities on margin.

Certain additional investment strategies that the Investment Advisor may make use of are set out below:

1. **Traditional Equity Strategies.** In managing the Portfolio, the Investment Advisor is expected to make use of traditional equity investment strategies such as investing on a global basis in equity securities such as common shares and convertible securities such as warrants, investing in undervalued securities, managing long/short positions, short selling overvalued securities, pairs trading, merger arbitrage, convertible arbitrage and participating in restructuring situations. The Fund may also invest in subordinated debentures, convertible debentures, preferred shares and equity-like instruments of such companies.
2. **Derivatives.** The Fund may use warrants and other derivatives such as options, forward contracts, futures contracts and swaps in an effort to (i) hedge against losses from changes in the prices of the Fund's investments and from exposure to foreign currencies; (ii) gain exposure to individual securities, energy assets and markets instead of buying such assets directly; and/or (iii) generate income. As described below, the Fund may also purchase and sell commodity futures, options, forward contracts or swaps to gain exposure to physical energy commodities without investing in such assets directly.
3. **Leverage.** At the discretion of the Investment Advisor, the Fund may use financial leverage through the acquisition of financial derivative contracts and/or similar securities, subject to compliance with the Fund's investment restrictions described below. The Fund will measure leverage in terms of the total underlying notional value of the financial derivative positions and securities as a ratio of the total assets held by the Fund. The aggregate underlying market exposure of all derivatives held by the Fund can exceed the Fund's cash and cash equivalents, including cash held as margin on deposit to support the Fund's derivatives trading activities.

#### **Additional Information Regarding Short Selling**

Certain of the Fund's investment strategies involve the short selling of securities. To do this, the Fund will borrow the securities it is selling short, and will be under an obligation to return the borrowed securities to the lender at a future date. The Fund will also be required to pay the lender any dividends declared on the borrowed securities, together with any securities borrowing fees. To return the borrowed securities, the Fund will purchase these same securities at a later date, with the result that the Fund will generally make a gain on the short sale if the price of the securities has declined by such later date. The borrowing of securities by the Fund is made pursuant to a settlement services agreement between the Fund, the Manager and a Schedule I Bank.

#### **Additional Information Regarding Derivatives**

The Fund may write covered call options and cash covered put options and purchase call options and put options with the effect of closing out existing call options and put options written by the Fund. The Fund may also purchase put options in order to protect the Fund from declines in the market prices of the individual securities in the Portfolio or in the value of the Portfolio as a whole. The Fund may enter into trades to close out positions in such permitted derivatives. The Fund may also use derivatives to hedge the Fund's foreign currency exposure. Such permitted derivatives may include exchange-traded options, futures contracts, options on futures, over-the-counter options and forward contracts.

#### **Investment Restrictions**

The activities of the Fund are subject to certain investment restrictions contained in the Articles. The Fund's investment restrictions, as well as its investment objective and investment strategies, may be changed by the Manager of the Fund, without the approval of Shareholders, provided that at least 90 days' prior written notice of such change is provided to Shareholders. These investment restrictions provide, among other things, as follows:

1. **Cash.** At the discretion of the Investment Advisor, the Portfolio may be invested entirely in cash or cash equivalents.
2. **Sole Undertaking.** The Fund will not engage in any undertaking other than the investment of the Fund's assets in accordance with the Fund's investment objective and investment strategies.
3. **Liquidity.** The Fund will not purchase any securities of an issuer if, immediately after the purchase, more than 25% (based on cost amount) of the assets of the Fund is invested directly in illiquid securities (defined as securities which the Investment Advisor determines may not be sold or disposed of in the ordinary course of business within seven days at approximately the value ascribed to them by the Fund).
4. **Leverage.** The Fund may employ leverage of up to 25% of the Net Asset Value of the Fund.
5. **Purchasing Securities.** The Fund will not purchase securities of a public issuer other than through normal market facilities unless the purchase price thereof approximates the prevailing market price as negotiated or established by parties who are at arm's length with the Manager and the Investment Advisor. If an affiliate of the Investment Advisor provides brokerage services to the Fund, the execution, prices and terms of such services must be no less favourable than those generally offered by other brokers and dealers.
6. **Fixed Price.** The Fund will not purchase any security which may by its terms require the Fund to make a contribution in addition to the payment of the purchase price (other than pursuant to a permitted derivative transaction), provided that such restriction will not apply to the purchase of securities which are paid for on an instalment basis where the total purchase price and the amount of all such instalments are fixed at the time the first instalment is paid.
7. **Interest of Investment Advisor.** The Fund will not purchase securities from, or sell securities to, the Investment Advisor or any of its affiliates or any officer, director or shareholder of any of them, any person managed by the Investment Advisor or any of its affiliates, or any person in which any officer, director or shareholder of the Investment Advisor or any of its affiliates may have a material interest (which, for these purposes, includes beneficial ownership or more than 10% of the voting securities of such person).
8. **Commodities.** The Fund will not purchase any physical commodity, but may purchase and sell commodity futures or options on futures (subject to the Investment Advisor obtaining any necessary registrations under the *Commodity Futures Act* (Ontario)), options, forward contracts or swaps. The Fund will not purchase such futures, options on futures, options, forward contracts or swaps on physical commodities if, immediately after the purchase, the total amount invested by the Fund in such futures, options on futures, options, forward contracts or swaps on physical commodities would exceed 10% of the Net Asset Value of the Fund.
9. **Control Restrictions.** The Fund will not purchase a security of an issuer if, immediately after the purchase, the Fund would hold securities representing more than 10% of either the votes attaching to the outstanding voting securities of that issuer or the outstanding equity securities of that issuer, or purchase a security for the purpose of exercising control over or management of the issuer of the security. If the Fund acquires a security other than as the result of a purchase and the acquisition results in the Fund exceeding the 10% limit described in this paragraph, the Fund shall, as quickly as is commercially reasonable, reduce its holdings of those securities so that it does not hold securities exceeding such limits.
10. **Net Asset Value Restriction.** The Fund will not purchase a security of an issuer if, immediately after the purchase, the total amount invested by the Fund in such issuer exceeds 15% of the Net Asset Value of the Fund. If at any time more than 15% of the Net Asset Value consists of securities of any one issuer, the Investment Advisor will, as quickly as is commercially reasonable, take all necessary steps to reduce the percentage of Net Asset Value represented by such securities to 15% or less.

## 11. Tax-Related Investment Restrictions

- (a) The Fund will not acquire or continue to hold any property that would be “taxable Canadian property” if the definition of that term in the Tax Act were read without reference to paragraph (b) thereof, if such property exceeds 10% of all property owned by the Fund.
- (b) the issuers of securities held by the Fund will not be foreign affiliates of the Fund;
- (c) if the Fund has qualified to be a mutual fund corporation for purposes of the Tax Act, the Fund will not take any action that would cause it to cease to be a mutual fund corporation for purposes of the Tax Act;
- (d) the securities held by the Fund will not be: (i) securities of or an interest in any non-resident entity, an interest in or a right or option to acquire such property, or an interest in a partnership which holds any such property if the Fund (or the partnership) would be required to include any significant amounts in income pursuant to section 94.1 of the Tax Act, (ii) an interest in a trust (or a partnership which holds such an interest) which would require the Fund (or the partnership) to report income in connection with such interest pursuant to the rules in section 94.2 of the Tax Act, or (iii) any interest in a non-resident trust (or a partnership which holds such an interest) other than an “exempt foreign trust” for the purposes of section 94 of the Tax Act; and
- (e) none of the securities held by the Fund will be tax shelter investments (for purposes of the Tax Act).

## MANAGEMENT OF THE FUND

### The Fund

#### Directors and Executive Officers of the Fund

The name, municipality of residence, position with the Fund and principal occupation of each of the directors and executive officers of the Fund are as follows:

<b>Name and Municipality of Residence</b>	<b>Position with Front Street Energy Opportunities Fund Inc.</b>	<b>Principal Occupation</b>
Gerard Ferguson <sup>(1)(2)</sup> Toronto, Ontario	Director, Chief Executive Officer	Senior Portfolio Manager of the Manager and Investment Advisor
Linda D. Hryma <sup>(1)</sup> Oakville, Ontario	Director	Office Manager and Assistant Corporate Secretary of the Manager and Investment Advisor
Terence Lui <sup>(1)</sup> Toronto, Ontario	Director, Corporate Secretary	Vice President, General Counsel, and Chief Compliance Officer of the Manager and Investment Advisor
Susan Johnson Oakville, Ontario	Chief Financial Officer	Chief Financial Officer of the Manager and Investment Advisor

Note:

<sup>(1)</sup> Member of the Audit Committee.

Name and Municipality of Residence	Position with Front Street Energy Opportunities Fund Inc.	Principal Occupation
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<sup>(2)</sup> Executive officer of Front Street Energy Opportunities Fund Inc.

**Gerard Ferguson** is a Senior Portfolio Manager of the Investment Advisor, having joined the Investment Advisor in February 2014. Mr. Ferguson graduated from The Richard Ivey School of Business at the University of Western Ontario in 1993 and began his investment career as an analyst at AGF Management, a Canadian asset manager. His initial duties included trading and portfolio management of Canadian equity and fixed income securities. Throughout his eleven years at AGF Gerard managed or co-managed nine different Canadian equity and balanced funds ranging in size from \$50 million to \$800 million. He became a vice president and lead portfolio manager in 1996. From 1999 to 2004, Mr. Ferguson managed a \$360 million Canadian mid and small cap fund. In 2004 he left and co-founded Jemekk Capital Management Inc. a Toronto-based alternative asset manager registered with the Ontario Securities Commission. As President and Portfolio Manager, Mr. Ferguson launched and ran two multi-strategy hedge funds primarily focused on Canadian securities for High Net Worth, Family Office and Fund of Fund clients. In 2014, Jemekk Capital Management was sold to the Investment Advisor where Mr. Ferguson continues to manage the original multi-strategy mandates on behalf of clients. Mr. Ferguson obtained his Chartered Financial Analyst designation in 1996 and is a member of the Toronto Society of Financial Analysts and the Association of Investment Management and Research.

**Normand Lamarche** is a Senior Portfolio Manager of the Investment Advisor and has been a Vice-President since October 2001 and a Director since July 2002. He is also a director and a Vice President of Tuscarora Capital Inc. Mr. Lamarche holds a Chartered Financial Analyst designation and has been engaged in the business of providing investment advisory services and portfolio management since 1987. Mr. Lamarche was a portfolio manager with Altamira Management Ltd. from August 1987 to March 1995 during which time he managed resource and balanced funds. In 1996, Mr. Lamarche established Tuscarora Capital Inc., an affiliated dealer of Front Street Mutual Funds Limited and the Investment Advisor, with Mr. Gary Selke. Mr. Lamarche received a Bachelor of Arts in economics from Carleton University.

**Susan Johnson** is the Chief Financial Officer of the Manager and the Investment Advisor, joining the Front Street Capital group in January 2010 with over 20 years of experience in the financial services industry, focusing on the wealth management sector. Prior to joining the Front Street Capital group, Ms. Johnson held various executive positions including, most recently, as Vice-President Finance at Mackenzie Financial Corp. (“**MFC**”) from July 2007 to October 2009 while concurrently Chief Financial Officer of MRS Securities Services Inc. (a subsidiary of MFC) from January 2009 to October 2009. Prior to that, Ms. Johnson held a number of positions with Canadian Imperial Bank of Commerce and subsidiaries starting in May 1998, including the position Vice-President Finance at CIBC Asset Management Inc. from March 2005 to April 2007. Ms. Johnson holds a Bachelor of Commerce Honours degree from Queen’s University and is a Chartered Professional Accountant.

**Linda Hryma** is a Director and the Assistant Corporate Secretary of the Manager and Assistant Corporate Secretary and Office Manager of the Investment Advisor and its related predecessor entities since 2001.

**Terence Lui** is Vice President, General Counsel and Chief Compliance Officer of the Manager and Investment Advisor, having joined the Front Street Capital group of companies in May 2012. Prior to joining the Front Street group, Mr. Lui was a partner in the Securities & Capital Markets Group at Borden Ladner Gervais LLP, where he specialized in corporate and securities law since 2004, and was also an adjunct professor at Osgoode Hall Law School. Mr. Lui holds a Juris Doctor from the University of Toronto Faculty of Law and a Bachelor of Commerce from the Rotman School of Management at the University of Toronto. Mr. Lui also holds a Chartered Financial Analyst designation.

### The Manager

Although the directors of the Fund are responsible for the overall direction of the Fund, pursuant to a management agreement dated as of March 25, 2015 between the Fund and Front Street Capital 2004 (the “**Management Agreement**”), Front Street Capital 2004 has been appointed the manager of the Fund. Front Street Capital 2004’s

address is Suite 600, 33 Yonge Street, Toronto, Ontario, M5E 1G4. Its telephone number is 1(800) 513-2832, its e-mail address is advisorservice@frontstreetcapital.com and its website address is www.frontstreetcapital.com.

The Manager is a partnership that was established under the laws of Ontario on September 23, 2004 and is registered as an investment fund manager in Ontario, Quebec and Newfoundland and Labrador. The Manager is also registered as portfolio manager in Ontario and British Columbia, and as an exempt market dealer in Ontario and Alberta.

The partners of the Manager are currently seven corporations, each of which is controlled, directly or indirectly, by one or more of Gerard Ferguson, Gordon McMillan, Tim Diamond, Andy McKay, Mark Barr, Normand G. Lamarche, Frank L. Mersch, Linda D. Hryma and a trust established for the benefit of David A. Conway and his family.

The Manager provides management and administrative services to a wide variety of investment funds, mutual funds and alternative class funds. The principals of the Manager are Normand Lamarche, Nevin Markwart, and Frank Mersch, who collectively have over 80 years of experience in a variety of investment activities including portfolio management and investment banking. Details of their respective roles with the Manager are set out in the chart below.

*Executive Officers of the Manager and Investment Advisor*

The name, municipality of residence, position with the Manager and principal occupation of each of the executive officers of the Manager are as follows:

<b>Name and Municipality of Residence</b>	<b>Position with the Manager and Investment Advisor</b>	<b>Principal Occupation<sup>(1)</sup></b>
Nevin Markwart Toronto, Ontario	President and Chief Executive Officer	President and Chief Executive Officer of the Manager and the Investment Advisor
Frank L. Mersch <sup>(2)</sup> Toronto, Ontario	Chairman, Chief Investment Officer, Senior Portfolio Manager, and Vice President	Chief Investment Officer, Vice President, and Senior Portfolio Manager of the Investment Advisor
Normand G. Lamarche <sup>(2)</sup> Toronto, Ontario	Senior Portfolio Manager and Vice President	Vice President and Senior Portfolio Manager of the Investment Advisor
Linda D. Hryma Oakville, Ontario	Assistant Corporate Secretary and Office Manager	Office Manager and Assistant Corporate Secretary of the Manager and Investment Advisor
Terence Lui Toronto, Ontario	Vice President, General Counsel and Chief Compliance Officer	Vice President, General Counsel, and Chief Compliance Officer of the Manager and Investment Advisor
Susan Johnson Oakville, Ontario	Chief Financial Officer	Chief Financial Officer of the Manager and Investment Advisor

Notes:

<sup>(1)</sup> Other than for Nevin Markwart, for biographical information about the executive officers of the Manager and a description of their respective principal occupations within the five preceding years, see “– Directors and Executive Officers of the Fund – The Investment Advisor”.

<sup>(2)</sup> Member of the Manager’s management committee. The Manager’s management committee has complete and exclusive power and authority to generally administer the Manager’s business.

**Nevin Markwart** is the President and Chief Executive Officer of the Manager and the Investment Advisor, having joined the Front Street Capital group of companies in July 2016. Nevin has over 20 years of experience in the

investment industry, and was the President and CEO of Calgary's Canoe Financial from 2010 to 2014. Prior to leading Canoe, he was Head of Canadian Equities at Fidelity Canada, after working in Boston at Wellington Capital and Standish, Ayer and Wood. Nevin was the Boston Bruins' first pick in the 1983 NHL Entry Draft and spent 9 seasons in the NHL before working in the investment industry. He holds an MBA from Northeastern University in Boston. Nevin holds a Chartered Financial Analyst designation and is also a Certified Financial Planner (CFP).

#### *Principal Terms of the Management Agreement*

Pursuant to the Management Agreement, the Manager has been appointed to be the manager of the Fund and is responsible for the management of the operations and affairs of the Fund and to contract on behalf of the Fund. The Manager may, pursuant to the terms of the Management Agreement, delegate its duties and powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund and the Shareholders to do so. The Manager has delegated certain of its duties and powers to the Investment Advisor, the custodian of the Fund and certain other service providers. See “– *The Investment Advisor*” and “– *The Custodian*”.

The Manager's duties will include, without limitation, authorizing the payment of operating expenses incurred on behalf of the Fund; calculating the amount of dividends by the Fund; preparing financial statements, income tax returns and financial and accounting information as required by the Fund; and processing subscriptions and redemptions. The Manager will provide office facilities and personnel to carry out these services, together with clerical services that are not furnished by the Fund's service providers.

Within 10 business days after the end of each month, the Fund will pay the Manager a fee equal to one-twelfth of (i) 1.50% of Series Net Asset Value in respect of the Series B Shares; and (ii) 1.0% of the Series Net Asset Value in respect of the Series F Shares, based on the month-end Series Net Asset Value for such month (calculated without regard to such fee) plus applicable taxes and related expenses. The Manager will also be entitled to receive a Performance Bonus (as defined under “*Fees – Performance Bonus*”). The Manager will pay, out of its management fee, fees to the Investment Advisor and any fee payable to dealers in respect of Shares of the Fund held by clients of the dealers (the “**Servicing Fee**”) on such terms as the Manager, in its sole discretion, may agree to. See “*Fees*”.

The Manager is required to exercise its powers and discharge its duties on a basis which is fair and reasonable to the Fund, honestly, in good faith and in the best interests of the Fund and the Shareholders and to exercise the care, diligence and skill that a prudent and qualified manager would exercise in comparable circumstances. The Management Agreement provides that to the extent the Manager has delegated its powers and duties to the Investment Advisor, the Manager shall be deemed to have satisfied its standard of care. Among other restrictions imposed on the Manager, it may not dissolve the Fund or wind up the Fund's affairs except in accordance with the provisions of the Management Agreement. The Management Agreement provides that the Manager will have no liability to the Fund or any Shareholder for any loss or damage relating to any matter regarding the Fund, including any loss or diminution in the value of the Fund's property or any loss or damage caused to the Fund or any Shareholder relating to permitted loans or indebtedness of the Fund, except to the extent that the loss or damage results from the wilful misconduct, bad faith, gross negligence or reckless disregard by the Manager of its duties, obligations and responsibilities, or the Manager has failed to meet its standard of care or otherwise failed to comply with its obligations under the Management Agreement which have not been delegated to the Investment Advisor. If the Manager has retained an appropriate expert or advisor with respect to any matter connected with its duties under the Management Agreement or any material contract, the Manager may act or refuse to act based on the advice of any such expert or advisor without liability.

The Manager and each of its partners, directors, officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any claim, action, suit or proceeding that is proposed or commenced or other claim that is made against the Manager or any of its partners, officers, employees or agents in the exercise of its duties as Manager if they do not result from the Manager's wilful misconduct, bad faith, gross negligence or reckless disregard of its duties, breach of its obligations as manager under the Management Agreement which have not been delegated to the Investment Advisor or failure to meet its standard of care.

The Manager may resign upon 60 days' notice to Shareholders and the Fund, or upon such lesser notice as the Fund may accept. If the Manager resigns, it may appoint its successor, but its successor must be approved by an Ordinary Resolution, unless such successor is an affiliate of the Manager. Except upon the bankruptcy, dissolution or

winding-up of the Manager, the appointment of a trustee or permanent receiver of the affairs of the Manager (in which case the Manager will be deemed to have resigned as manager of the Fund effective on the earlier of the appointment of a Substitute (as hereinafter defined) by the Shareholders by Special Resolution or 180 days following the appointment of such trustee or permanent receiver), the Manager ceasing to be resident in Canada for purposes of the Tax Act or the Manager ceasing to carry out its functions of managing the Fund in Canada, the Manager may not be removed unless replaced for cause upon 60 days' prior written notice following a Special Resolution requiring such replacement and appointing a substitute (the "**Substitute**") to assume the rights and responsibilities of the Manager. For purposes of the Management Agreement, "cause" shall mean the fraudulent actions or gross negligence of the Manager in performing its obligations pursuant to the Management Agreement or the bankruptcy, dissolution or winding-up of the Manager or the appointment of a trustee or permanent receiver of the affairs of the Manager. Upon its removal, the Manager shall do all things necessary to effectively transfer the management of the Fund to the Substitute. The Substitute shall thereafter assume the powers, duties and obligations of the Manager under the Management Agreement and shall be subject to the terms thereof.

If the Manager resigns its position or is removed pursuant to the Management Agreement, the powers, duties and obligations conferred or imposed upon the directors under the Articles shall be exercised by the directors until a replacement manager is appointed, and in the case where the Manager has appointed a successor who is not an affiliate of the Manager, such replacement manager is approved by Shareholders.

The management services of the Manager under the Management Agreement are not exclusive and nothing in the Management Agreement prevents the Manager or its partners or any of their affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and restrictions are similar to those of the Fund) or from engaging in other activities.

### **The Investment Advisor**

Front Street Investment Management Inc. was retained by the Manager, on behalf of the Fund, to provide investment advisory and portfolio management services to the Fund pursuant to an investment advisory agreement between the Manager, on behalf of the Fund, and the Investment Advisor dated March 25, 2015 (the "**Investment Advisory Agreement**"). The Investment Advisory Agreement was assigned to the Investment Advisor pursuant to an assignment agreement dated as of October 16, 2015. The Investment Advisor provides investment management and portfolio management services to a range of institutional clients and high net worth individuals.

#### *Portfolio Managers of the Investment Advisor*

The name, municipality of residence, position with the Investment Advisor and principal occupation of each of the portfolio managers of the Investment Advisor are as follows:

<b>Name and Municipality of Residence</b>	<b>Position with the Investment Advisor</b>	<b>Principal Occupation</b>
FRANK L. MERSCH Toronto, Ontario	Chief Investment Officer, Vice President, and Senior Portfolio Manager	Chief Investment Officer, Vice President, and Senior Portfolio Manager of the Investment Advisor and Manager
NORMAND G. LAMARCHE Toronto, Ontario	Vice President and Senior Portfolio Manager	Senior Portfolio Manager and Vice President of the Investment Advisor and Manager
GERARD FERGUSON Oakville, Ontario	Senior Portfolio Manager	Senior Portfolio Manager of the Manager and the Investment Advisor
R. CRAIG PORTER Toronto, Ontario	Portfolio Manager	Portfolio Manager of the Investment Advisor

<b>Name and Municipality of Residence</b>	<b>Position with the Investment Advisor</b>	<b>Principal Occupation</b>
RICHARD JAMES BROWN Oakville, Ontario	Portfolio Manager	Portfolio Manager of the Investment Advisor

Biographies for Gerard Ferguson and Normand Lamarche are set out under “*Responsibility for Fund Operations – Directors and Executive Officers of the Fund*” above.

**Frank Mersch** is the Chairman and a Vice President of the Manager and Chief Investment Officer, Vice President, Director and a Senior Portfolio Manager of the Investment Advisor having joined the Front Street Capital group of companies in 2004. He holds a Chartered Financial Analyst designation and has over 30 years of experience in the investment industry, including 11 years as an investment manager with Altamira Management Ltd. during which time, Mr. Mersch managed and marketed private wealth mutual funds and pension funds and earned a reputation as one of the most highly regarded investment managers in Canada, frequently making appearances on “Wall Street Week” and other investment programs. Mr. Mersch received a Bachelor of Arts degree from the University of Toronto.

**Craig Porter** joined the Investment Advisor as a Portfolio Manager in October 2005. Mr. Porter holds a Chartered Financial Analyst designation and has acted as the co-primary portfolio manager for Front Street Flow-Through Limited Partnerships, CIBC Precious Metals Fund and the CIBC Energy Fund. He has prime responsibility for a number of natural resource mandates for the firm’s individual and institutional clients and is also the portfolio manager for Front Street Resource Class. From 1992 until 2005, he was with Natcan Investment Management Inc., spending several years as a Vice President, Equities. His experience includes having acted as lead portfolio manager of the Altamira Resource Fund, Altamira Precious and Strategic Metal Fund and Altamira Energy Fund, as well as having been the portfolio manager for the Rhone 2005 and 2004 Flow-Through Limited Partnerships and Rhone 2004 Oil & Gas Strategic Limited Partnership. Prior to 1992, he was employed as a retail broker at brokerage firms based in Toronto, Ontario. Mr. Porter received a Bachelor of Arts degree in Commerce and Economics from the University of Toronto.

**Rick Brown** joined the Investment Advisor as a Senior Portfolio Manager of fixed and variable income in June 2013. Mr. Brown has over 16 years of trading and investment experience in global capital markets. Prior to joining the Investment Advisor, Mr. Brown was a Senior Portfolio Manager of fixed income at Stanton Asset Management/O’Leary Funds (“**Stanton**”). Prior to joining Stanton, Mr. Brown managed a large relative value credit portfolio at BMO Capital Markets (“**BMO**”). His career at BMO includes six years in London, England, initially trading interest rate derivatives, before developing the credit and credit derivative businesses, followed by a further five years in BMO’s Toronto office. Mr. Brown is a graduate of Bishop’s University (BBA), University of Reading (M.Sc. Finance), and has obtained the Chartered Financial Analyst (CFA) designation.

#### *Other Investment Vehicles*

The Investment Advisor also acts as the investment advisor and/or investment fund manager of several other investment vehicles, including: Front Street Tactical Bond Fund, Front Street Growth Fund and the classes of Front Street Mutual Funds Limited, all public mutual funds; and Front Street Hedge Fund and Front Street Canadian Energy Resource Fund, both private investment trusts.

#### *Principal Terms of the Investment Advisory Agreement*

Pursuant to the Investment Advisory Agreement, the Investment Advisor manages the Portfolio in accordance with the investment objective, investment strategies and investment restrictions of the Fund. The Investment Advisor will receive from the Manager a portion of the fee payable by the Fund to the Manager in consideration of the Investment Advisor’s services to the Fund. See “*Fees*”.

Under the Investment Advisory Agreement, the Investment Advisor is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund and the Shareholders and to exercise the degree of care, diligence and skill that a prudent and qualified investment advisor would exercise in comparable circumstances. The Investment Advisor will not be liable in carrying out its duties under the Investment Advisory

Agreement, including for any loss or diminution in the value of the Fund's property or any loss or damage caused to the Fund or any Shareholder relating to permitted loans or indebtedness of the Fund or for any insufficiency of income from or any depreciation in the value of any investments in or upon which any of the moneys of or belonging to the Fund shall be invested or by virtue of the acquisition or disposition of any such investments or for any other loss or damage to the Portfolio which may occur during or in the course of the performance by the Investment Advisor of its rights, duties, powers, discretions, authorities, obligations and responsibilities under the Investment Advisory Agreement, except to the extent that the loss or damage results from the wilful misconduct, bad faith, gross negligence or reckless disregard by the Investment Advisor of its duties, obligations and responsibilities, or the Investment Advisor has failed to meet its standard of care or otherwise failed to comply with its obligations under the Investment Advisory Agreement.

The Investment Advisor and each of its directors, officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any claim, action, suit or proceeding that is proposed or commenced or other claim that is made against the Investment Advisor or any of its officers, directors, employees or agents in the exercise of its duties as Investment Advisor if they do not result from the Investment Advisor's wilful misconduct, bad faith, gross negligence or reckless disregard of its duties, breach of its obligations under the Investment Advisory Agreement or failure to meet its standard of care.

The Investment Advisor may resign upon 60 days' notice to Shareholders and the Manager, or upon such lesser notice as the Manager may accept. If the Investment Advisor resigns, it may appoint its successor, but its successor must be approved by an Ordinary Resolution, unless such successor is an affiliate of the Investment Advisor. The Manager may, in its discretion, terminate the Investment Advisory Agreement and replace the Investment Advisor where it determines it is in the best interest of the Fund and the Shareholders to do so. Except upon the bankruptcy, dissolution or winding up of the Investment Advisor or the appointment of a trustee or permanent receiver of the affairs of the Investment Advisor (in which case the Investment Advisor will be deemed to have resigned as investment advisor of the Fund effective on the earlier of the appointment of a Replacement (as hereinafter defined) by the Shareholders by Special Resolution or 180 days following the appointment of such trustee or permanent receiver), the Investment Advisor may not be removed unless replaced for cause upon 60 days' prior written notice following a Special Resolution requiring such replacement and appointing a replacement (the "**Replacement**") to assume the rights and responsibilities of the Investment Advisor. For the purposes of the Investment Advisory Agreement, "cause" shall mean the fraudulent actions or gross negligence of the Investment Advisor in performing its obligations pursuant to the Investment Advisory Agreement or the bankruptcy, dissolution or winding-up of the Investment Advisor or the appointment of a trustee or permanent receiver of the affairs of the Investment Advisor. Upon its removal, the Investment Advisor shall do all things necessary to effectively transfer the investment advisory services of the Fund to the Replacement. The Replacement shall thereafter assume the powers, duties and obligations of the Investment Advisor, enter into an investment advisory services agreement with the Manager and shall be subject to the terms thereof.

The services of the Investment Advisor under the Investment Advisory Agreement are not exclusive and nothing in the Investment Advisory Agreement prevents the Investment Advisor or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and restrictions are similar to those of the Fund) or from engaging in other activities. The Investment Advisor's investment decisions for the Fund will be made independently of those made for its other clients and independently of its own investments. However, on occasion, the Investment Advisor may make the same investment for the Fund and for one or more of its other clients. If the Fund and one or more of the other clients of the Investment Advisor are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

An affiliate of the Investment Advisor may provide brokerage services to the Fund from time to time, provided that the execution, prices and terms of such services are no less favourable to the Fund than those generally offered by other brokers and dealers.

#### **The Prime Broker/Custodian**

CIBC World Markets Inc. acts as the custodian of the assets and the prime broker for the Fund.

## DESCRIPTION OF THE SHARES

The Fund is authorized to issue an unlimited number of Shares in an unlimited number of series. Initially, an unlimited number of Series B Shares and Series F Shares have been authorized. Each Share of a series represents an undivided interest in the net assets of the Fund attributable to that series.

Except as provided under “*Shareholder Matters – Limitation on Non-Resident Ownership*”, each Share of a series entitles the holder to the same rights and obligations as a holder of any other Share of that series and no Shareholder is entitled to any privilege, priority or preference in relation to any other Shareholders. Each Shareholder is entitled to one vote for each Share held and is entitled to participate equally with respect to any and all dividends made in respect of that Series by the Fund. See “*Shareholder Matters – Meetings of Shareholders*” and “*Dividends*”. On termination, the Shareholders of record holding outstanding Shares are entitled to receive all of the assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses of the Fund. See “*Termination of the Fund*”.

Shares may be purchased as at the first business day of any month (each, a “**Closing Date**”) at a purchase price per Share equal to the Series Net Asset Value per Share on the last business day prior to the Closing Date, if the Manager receives through the facilities of FundSERV or directly the required payment no later than 4:00 p.m. (Toronto time) on the last business day prior to the Closing Date. A duly completed and executed subscription agreement must be provided to the Manager no later than 4:00 p.m. (Toronto time) on the fifth business day following the Closing Date.

## RESALE RESTRICTIONS

A Shareholder may not transfer any of its Shares unless the Manager has given its written consent approving such transfer by the Shareholder to the transferee of such Shares. Any transfer of Shares must be made in accordance with applicable securities laws, which will vary depending on the relevant jurisdiction, and which will require the transfer to be made pursuant to exemptions from prospectus requirements. The Fund is not a reporting issuer or equivalent in any of the jurisdictions of Canada and does not intend to become a reporting issuer or equivalent in any jurisdiction of Canada. Unless permitted under securities legislation, a purchaser cannot trade the Shares before the date that is four months and a day after the date the Fund becomes a reporting issuer in any province or territory of Canada. Purchasers are advised to seek legal advice prior to any proposed transfer of the Shares.

## DETAILS OF THE OFFERING

Shares are being offered, subject to satisfaction of applicable regulatory requirements, at a minimum subscription of (i) \$5,000 to “accredited investors” (as such term is defined in National Instrument 45-106 – *Prospectus Exemptions*), resident in any Canadian Offering Jurisdiction; and (ii) \$25,000 to investors who are resident outside of Canada.

A Shareholder may make additional investments in Shares from time to time in amounts of \$5,000 or any multiple thereof, provided that, if the investor is resident in Canada at such time the Shareholder is an accredited investor. Shares will be issued to subscribers against delivery of duly executed subscription agreements and payment in full of the subscription price. See “*Subscription Procedures*”.

## SUBSCRIPTION PROCEDURES

### Cash Subscriptions

In connection with any subscription for Shares, the Manager must receive, through the facilities of FundSERV or directly (i) the aggregate subscription price for such Shares, either through the facilities of FundSERV, by certified cheque or bank draft made payable to the Fund or by a wire transfer of immediately available funds to an account designated by the Manager by 4:00 p.m. (Toronto time) on the last business day prior to the applicable Closing Date; and (ii) a duly completed and executed subscription agreement by 4:00 p.m. (Toronto time) on the fifth business day following the applicable Closing Date. Any document delivered by a subscriber of Shares shall be delivered to such person as the Manager may designate in the subscription agreement for such Shares. Any issuance of Shares to a

subscriber is conditional upon receipt from such subscriber of a duly completed and executed subscription agreement.

### **Exchange Subscriptions**

The Manager, in its sole discretion, has the right to accept freely tradeable securities of issuers as determined by the Manager from time to time, subject to the Fund's investment objective and investment restrictions, from purchasers of Shares as payment for the relevant subscription price of Shares (each, an "**Exchange Subscription**"). The Manager, on behalf of the Fund, at its discretion, may accept any such Exchange Subscriptions on a tax-deferred basis. Additional details with respect to the procedures under an Exchange Subscription will be set out in the subscription agreement.

Any securities acquired by the Fund on a tax-deferred basis may have a cost for tax purposes that is less than the fair market value thereof. A subsequent disposition by the Fund of any such securities may result in the recognition of larger capital gains than if a tax-deferred Exchange Subscription had not occurred.

### **Additional Subscription Details**

Series B Shares are available to all eligible investors. You can only buy Series F Shares if we and your broker, dealer or advisor approve it first. Your broker, dealer or advisor's participation in the Series F program is subject to our terms and conditions.

Series B Shares are "front-end loaded" and Series F Shares have "no load" and are available to investors who participate in fee-based programs through their broker, dealer or advisor.

Neither the Fund nor the Manager charge a fee or commission when investors purchase Shares; however, an investor's dealer or advisor may charge an initial sales charge of up to 5% at the time of purchase of Series B Shares, which will reduce the amount of money that investor invests in the Series B Shares. This is a separate agreement between an investor and the dealer or advisor.

Shares may be purchased directly from the Investment Advisor (by investors resident in Ontario and Alberta) or through other registered dealers.

The purchase price per Share of Shares to be issued on a Closing Date will be equal to the Series Net Asset Value per Share on the last business day prior to such Closing Date. Subject to any rights a purchaser may have to rescind its subscription agreement, the aggregate subscription price will be held in trust until the applicable Closing Date. See "*Purchasers' Rights*".

Certificates representing Shares will not be issued by the Fund. Within 10 business days of a Closing Date, the Manager will forward to each applicable Shareholder a confirmation indicating the number of Shares purchased and the Series Net Asset Value per Share at which the Shares were purchased.

## **DIVIDENDS**

The Fund does not intend to pay regular dividends.

## **REDEMPTION OF SHARES**

### *Monthly Redemption*

Subject to the Fund's right to suspend redemptions (as described below), Shares may be surrendered at least 30 days prior to the last business day of each month (each a "**Redemption Date**") for redemption on such Redemption Date. Shares so surrendered for redemption by the holder thereof to the Manager will be redeemed on such Redemption Date for a redemption price equal to the applicable Net Asset Value per Share on such Redemption Date and the holder will receive payment of such redemption price on or before the 30<sup>th</sup> business day following such Redemption

Date (the “**Redemption Payment Date**”), less any costs associated with the redemption and any early redemption charge.

The redemption right may be exercised by causing written notice to be given within the notice period described herein to the Manager, if the Shareholder originally subscribed for Shares directly from the Fund or to the holder’s investment advisor or broker who is a FundSERV Participant, if the holder originally subscribed for Shares through a FundSERV Participant. A holder who has purchased Shares through a FundSERV Participant should obtain further information from his or her investment advisor or broker to determine the timing and other procedural requirements of such investment advisor or broker in connection with the redemptions of Shares.

The Fund will seek to retain liquid assets sufficient to meet redemption requests. For this purpose, the term “liquid assets” means assets that may be disposed of in the ordinary course of business at approximately the price at which they are valued or which mature by the Redemption Payment Date.

To the extent the Fund finances redemptions by selling securities, the Fund will hold a larger proportion of its total assets in illiquid securities. Also, the sale of securities to fund redemptions could reduce the market price of those securities, which would in turn reduce Net Asset Value.

The Performance Bonus, if any, payable to the Manager will be accrued on each NAV Valuation Date as a liability of the Fund, reducing the Series Net Asset Value per Share of the Fund. The redemption price received by an investor whose Shares are redeemed will reflect such accrual for the Performance Bonus, based on any increase in Series Net Asset Value per Share from the beginning of the fiscal year through the date of redemption. However, the accrual of the Performance Bonus may subsequently be reversed if the Fund’s performance declines. No adjustment to a redemption price will be made after it has been fixed.

Redemptions of the Shares will tend to reduce the number of outstanding Shares and, depending upon the Fund’s investment performance, its net assets. A reduction in the Fund’s net assets will tend to increase the Fund’s expense ratio.

A redemption of Shares by the Fund will be a taxable event to Shareholders. See “*Canadian Federal Income Tax Considerations*”.

*In Specie Redemption:*

At the option of the Manager, payment of all or part of any redemption price may be made *in specie*, on a *pro rata* portion of the Portfolio.

Currently, the Manager expects to pay redemption proceeds *in specie* where the Fund has received redemption requests for Shares representing in excess of 5% of the Net Asset Value of the Fund for redemption on a particular Redemption Date.

*Suspension of Redemptions:*

The Fund may suspend the redemption of Shares or payment of redemption proceeds in respect of any Redemption Date (i) for the whole or any part of a period during which normal trading is substantially restricted or suspended on any stock exchange, options exchange or futures exchange within or outside Canada on which securities are listed and traded, if those securities represent more than 50% by value of the Net Asset Value of the Fund; or (ii) during any other period not exceeding 120 days in which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability to determine the value of the assets of the Fund.

The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Shareholders making such requests will be advised by the Manager of the suspension and that the redemption will be effected at an amount equal to the applicable Series Net Asset Value per Share on the third business day following the termination of the suspension, and that Shareholders will receive payment on or before the tenth business day following such

third business day. All such Shareholders will have the right to withdraw their requests for redemption. Any such suspension will terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

The Manager may redeem Shares on a Redemption Date if the Manager determines that such redemption is necessary or desirable due to regulatory requirements and upon providing the holder thereof with at least seven days' written notice of such redemption prior to such Redemption Date.

#### *Early Redemption Charge*

Shares held by a Shareholder for less than twelve (12) months will be subject to an early redemption charge of 2.00% of the Net Asset Value of such Shares.

### **NET ASSET VALUE**

The Net Asset Value of the Fund will be calculated by the Manager as at the close of business each NAV Valuation Date by subtracting the aggregate amount of the Fund's liabilities (including any accrued Performance Bonus and management fees payable to the Manager) from the aggregate value of the Fund's assets. The Net Asset Value in respect of a series of Shares (the "**Series Net Asset Value**") will also be calculated by the Manager as at the close of business each NAV Valuation Date, and is determined by taking the Series' proportionate share of the Fund's common assets less common liabilities and deducting from this amount all liabilities that relate solely to the specific Series.

The Net Asset Value of each Share of a particular series of Shares (the "**Series Net Asset Value per Share**") as at any particular time is the quotient obtained by dividing the applicable Series Net Asset Value as at such time by the total number of Shares of that series outstanding at such time. This calculation shall be made on a NAV Valuation Date without taking into account any issuance, conversion or redemption of Shares of that series to be processed by the Fund immediately after the time of such calculation on that NAV Valuation Date. The Series Net Asset Value per Share in respect of the Shares of each series of Shares shall be calculated as at such time on every NAV Valuation Date as shall be fixed from time to time by the Manager and the Series Net Asset Value per Share so determined in respect of the Shares of each series shall remain in effect until the time as of which the Series Net Asset Value per Share for the Shares of that series is next determined.

The following rules shall apply to the valuation of the securities in the Portfolio on a NAV Valuation Date:

- (a) the value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, cash received (or declared to holders of record on or before the date of valuation and to be received) and interest accrued and not yet received, shall be deemed to be the full amount thereof, provided that: (i) the value of any security which is a debt obligation which, at the time of acquisition, had a remaining term to maturity of one year or less shall be the amount paid to acquire the obligation plus the amount of any interest accrued on such obligation since the time of acquisition (for this purpose, interest accrued will include amortization over the remaining term to maturity of any discount or premium from the face value of an obligation at the time of its acquisition); (ii) any interest or other amount due in respect of an obligation in respect of which the issuer has ceased paying interest or has otherwise defaulted shall be excluded from such calculation; and (iii) if the Manager has determined that any such deposit, bill, demand note or account receivable is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Manager determines to be the fair value thereof;
- (b) the value of any security (which includes, without limitation, index futures and index options) which is listed on any recognized exchange shall be the closing sale price on the NAV Valuation Date on the principal exchange on which such security is listed or, if there is no sale price, the average between the closing bid and closing ask prices on the NAV Valuation Date, all as reported

by any report in common use or authorized as official by any recognized exchange; provided that if such exchange is not open for trading on the NAV Valuation Date, then the value of such security shall be such price or average on the last previous date on which such exchange was open for trading;

- (c) the value of any security which is traded over-the-counter shall be the closing sale price on the NAV Valuation Date or, if there is no sale price, the average between the closing bid and closing ask prices on the NAV Valuation Date, all as reported in the financial press;
- (d) the value of any security the resale of which is restricted or limited by reason of a representation, undertaking or agreement by the Fund or by law shall be determined on the basis of such price or yield equivalent quotations (which may be public quotations or may be obtained from major market makers) as the Manager determines best reflects its fair value;
- (e) any market price reported in currency other than Canadian dollars shall be translated into Canadian currency at the prevailing rate of exchange, as determined by the Manager, on the NAV Valuation Date;
- (f) the value of listed securities subject to a hold period will be valued as described in (a), (b), (c), (d) and (e) above with an appropriate discount as determined by the Manager. Investments in assets for which no published market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is otherwise determined to be appropriate by the Manager;
- (g) the value of any clearing corporation option shall be its current market value, determined in accordance with the principles herein set out; provided that (A) where a covered clearing corporation option is written, the premium received shall be offset by a deferred credit which shall be valued at an amount equal to the current market value of an option that would have the effect of closing the position; (B) any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment; (C) the deferred credit shall be deducted in arriving at the Net Asset Value of the Fund or Series; and (D) the securities which are the subject of a clearing corporation option shall be valued as provided above;
- (h) the value of a forward contract or of a futures contract shall be the gain or loss with respect thereto that would be realized if, on the date of determination of Net Asset Value, the position in the forward contract or the futures contract, as the case may be, were to be closed out, unless "daily limits" are in effect, in which case fair value shall be based on the current market value of the underlying interest;
- (i) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin; and
- (j) the value of any security or property to which, in the opinion of the Manager, the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair value thereof determined in good faith in such manner as the Manager from time to time adopts.

The value of the liabilities of the Fund will be determined as follows:

- (a) the value of all liabilities and contractual obligations will be the value determined by the Manager to most accurately reflect fair value; and

- (b) liabilities and contractual obligations payable in a foreign currency shall be translated into Canadian currency at the prevailing rate of exchange, as determined by the Manager, on the NAV Valuation Date.

The Fund will make the Series Net Asset Value per Share available to the financial press on the Manager's website on a weekly basis.

## **SHAREHOLDER MATTERS**

### **Meetings of Shareholders**

A meeting of Shareholders or of holders of a particular series of Shares may be convened by the Manager at any time and must be convened if requisitioned by the holders of not less than 33-1/3% of the Shares of the Fund or of that series of Shares then outstanding by a written requisition specifying the purpose of the meeting; provided that if the written requisition does not relate to matters upon which the Shareholders are entitled to vote, as set out in this Memorandum, or such other matters as the Manager, acting reasonably, may consent to, the Manager is not required to convene such meeting. Such requisition shall specify the purpose or purposes for which such meeting is to be called and shall include sufficient detail to permit other Shareholders to make a reasoned judgment on each matter to be considered at such meeting. The Fund will provide registered Shareholders with not less than 21 days' notice of any meeting of such holders. Generally, the quorum at any such meeting is two or more holders present in person or by proxy and representing not less than 10% of the Shares then outstanding. If no quorum is present at a meeting when called, the meeting, if called on the requisition of Shareholders, will be terminated and otherwise will be adjourned for not less than 10 days and at the adjourned meeting the Shareholders then present in person or represented by proxy will form the necessary quorum. At any such meeting, each Shareholder will be entitled to one vote for each whole Share held. Holders of a particular series of Shares shall vote separately as a series on any proposal which affects one series differently from another. In respect of all other matters that may be considered at a meeting of Shareholders, no separate series vote shall occur, and all holders voting on such matters shall vote together.

The Fund does not intend to hold annual meetings of Shareholders.

### **Acts Requiring Shareholder Approval**

Pursuant to the Articles, certain matters require approval by an Ordinary Resolution or a Special Resolution. A quorum for any meeting convened to consider a matter requiring approval by a Special Resolution, other than a meeting convened to consider the removal of the Manager or the Investment Advisor, shall consist of two or more Shareholders present in person or by proxy and representing not less than 33-1/3% of the Shares (or in the case of a meeting of Shareholders of a series only, not less than 33-1/3% of the Shares of that series) then outstanding. A quorum for any meeting convened to consider the removal of the Manager or the Investment Advisor shall consist of two or more Shareholders present in person or by proxy and representing not less than 50% of the Shares then outstanding. The number of Shares then outstanding shall be calculated exclusive of all Shares held by (a) the Manager or its partners or their respective officers and directors, in the case of a meeting convened to consider the removal of the Manager, other than pursuant to its resignation, or (b) the Investment Advisor, its associates, affiliates or their respective officers or directors, in the case of a meeting convened to consider the removal of the Investment Advisor, other than pursuant to its resignation.

The following matters require approval by an Ordinary Resolution:

- (a) any change in the basis of calculating the fees or other expenses that are charged to a Series which could result in an increase in charges to the Series unless (i) the Fund is at arm's length to the person or company charging the fee or expense, (ii) the applicable Offering Document discloses that the fee or expense may be changed on 60 days' prior notice to Shareholders and (iii) Shareholders are provided at least 60 days' prior notice of the change of fee or expense;

- (b) the introduction of a fee or expense, to be charged to a Series or directly to the Shareholders of a Series by the Fund in connection with the holding of Equity Shares of the Series that would result in an increase in charges to the applicable Series or to the Shareholders of that Series;
- (c) any change in the Manager, unless the new manager is an affiliate of the then current manager;
- (d) any decrease in the frequency of calculating the Series Net Asset Value per Share;

The following matters require approval by an Extraordinary Resolution:

- (a) any change to the fundamental investment objective of the Fund, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (b) except in conjunction with a Permitted Merger (as defined below) or if it is determined by the Manager, in its sole discretion, to be in the best interest of the Shareholders, the Fund undertaking a reorganization with, or transferring assets to, another investment fund, if (i) the Fund ceases to continue after the reorganization or asset transfer, and (ii) the transaction results in the Shareholders becoming securityholders in the other investment fund; or
- (c) except in conjunction with a Permitted Merger, the Fund undertaking a reorganization with or acquiring assets from, another investment fund, if (i) the Fund continues after the reorganization or asset acquisition, (ii) the transaction results in the securityholders of the other investment fund becoming Shareholders, and (iii) the transaction would be a significant change to the Fund.

**“Permitted Merger”** means a transaction between the Fund and another investment fund or funds (the **“Other Fund(s)”**) managed or advised by the Manager that has or have investment objectives and investment strategies that are substantially the same as the Fund’s in which the Fund acquires all or substantially all the assets of the Other Fund(s) in exchange for Shares of the Fund or in which the Other Fund(s) acquires all or substantially all the assets of the Fund in exchange for equity securities of the Other Fund provided that:

- (a) in the opinion of the Manager, acting reasonably, the management expense ratio borne by each Series will not increase as a result of such merger;
- (b) the merger of the Fund with the Other Fund(s) is completed on the basis of an exchange ratio determined with reference to the Series Net Asset Value per Share of each Series and the net asset value of the Other Fund(s) calculated by dividing the Series Net Asset Value per Share of each Series and the net asset value per share of the Other Fund(s) by the net asset value per share of the surviving fund, as determined at the close of trading on the TSX on the Business Day prior to the effective date of the merger;
- (c) the Manager or the Fund shall provide written notice to Shareholders at least sixty (60) days before the effective date of the merger;
- (d) the Fund receives all required regulatory and third party approvals by the effective date of such merger, including, without limitation, if applicable, the approval of the Canadian securities regulatory authorities; and
- (e) the Shareholders’ right to redeem their Shares is not suspended during the period from when the notice in (c) above is provided to Shareholders and the effective date of the merger.

Notwithstanding the foregoing, the Manager may, without the approval of or notice to Shareholders, amend the Articles for certain limited purposes specified therein, including to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Articles and any provisions of any law or regulation applicable to or affecting the Fund;
- (b) make any change or correction in the Articles which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Articles into compliance with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities industry, provided that any such amendment does not adversely affect the rights, privileges or interests of the Shareholders;
- (d) maintain the status of the Fund as a “mutual fund corporation” for the purposes of the Tax Act; or
- (e) provide added protection or benefit to Shareholders.

Except for changes to the Articles which require the approval of Shareholders or for which such approval is obtained or changes described above which do not require approval of or prior notice to Shareholders, the Articles may be amended from time to time by the Manager and the Manager shall provide written notice to Shareholders of such amendment within 30 days of the effective date of such amendment or, in the case of an amendment to the investment objective, investment strategies or investment restrictions of the Fund, at least 90 days prior to the effective date of such amendment.

### **Reporting to Shareholders**

The Fund will deliver or make available to Shareholders financial statements of the Fund in accordance with the provisions of National Instrument 81-106 – *Investment Fund Continuous Disclosure*.

### **TERMINATION OF THE FUND**

The Fund has no fixed termination date. The Fund may be terminated in accordance with the terms of the Articles. The Manager may, in its discretion, terminate the Fund if, in the opinion of the Manager, it would be in the best interests of the Shareholders. The Manager must give 60 days’ prior written notice to the Shareholders of any proposed termination of the Fund.

On termination, upon paying, retiring or discharging or making provisions for the payment, retirement or discharge of all known liabilities of the Fund, its net assets will be distributed to the Shareholders.

### **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations that generally apply to the acquisition, holding and disposition of Shares by a purchaser who acquires Shares pursuant to this Memorandum. This summary is applicable to a purchaser who, for purposes of the Tax Act and at all relevant times, (i) is or is deemed to be resident in Canada, (ii) holds Shares as capital property, and (iii) deals at arm’s length and is not affiliated (within the meaning of the Tax Act) with the Fund (each such person, a “**Holder**”). Generally, the Shares will be considered to be capital property to the holder thereof provided that they are not held in the course of carrying on a business of buying and selling securities and have not been acquired in one or more transactions considered to be an adventure or concern in the nature of trade. Certain holders who might not otherwise be considered to hold Shares as capital property may, in certain circumstances, be entitled to have such Shares, and each other “Canadian security” (as defined in the Tax Act), owned by such holder in the taxation year in which the election is made, and in all subsequent taxation years, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Holders should consult their own tax advisors regarding the potential application and consequences of this election in their particular circumstances.

This summary does not apply to a Holder: (i) that is a “financial institution” (as defined in the Tax Act for the purposes of the mark-to-market rules), (ii) an interest in which is a “tax shelter investment” (as defined in the Tax

Act), (iii) that is a “specified financial institution” (as defined in the Tax Act), (iv) that reports its “Canadian tax results” within the meaning of the Tax Act in a currency other than Canadian currency, or (v) that has entered into, or enters into, a “derivative forward agreement” (as defined in the Tax Act) with respect to Shares. Such holders should consult their own tax advisors.

This summary is based on the provisions of the Tax Act in force on the date of this Memorandum and the current published administrative policies and assessing practices of the Canada Revenue Agency (“CRA”) publicly available prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “**Proposed Amendments**”) and assumes that the Proposed Amendments will be enacted in their current form. There can be no assurance that any of the Proposed Amendments will be implemented in their current form or at all. Except for the Proposed Amendments, this summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, or changes in the administrative or assessing practices and policies of the CRA. In addition, this summary does not take into account other federal or any provincial, territorial or foreign tax legislation or considerations, which may differ significantly from the Canadian federal income tax considerations discussed herein.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to a Holder in respect of the transactions described herein. The income or other tax consequences will vary depending on the particular circumstances of the Holder, including the province or provinces in which the Holder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice or representations to any particular Holder.

This summary assumes that the Fund will be a “private holding corporation” as defined in the Tax Act and that the Fund will not qualify as a “mutual fund corporation” within the meaning of the Tax Act. In the event the Fund were to qualify as a mutual fund corporation, the income tax consequences described below would in some respects be materially different.

## **Tax Treatment of Shareholders**

### *Dividends*

A Holder will be required to include in computing its income for a taxation year dividends (including deemed dividends) received or deemed to be received on the Shares. In the case of a Holder that is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations. Taxable dividends received from a taxable Canadian corporation which are designated by such corporation as “eligible dividends” will be subject to an enhanced gross-up and dividend tax credit regime in accordance with the rules in the Tax Act.

In the case of a Holder that is a corporation, the amount of any such taxable dividend that is included in its income for a taxation year will generally be deductible in computing its taxable income for that taxation year. In certain circumstances, subsection 55(2) of the Tax Act (as proposed to be amended) will treat a taxable dividend received by a Holder that is a corporation as proceeds of disposition or a capital gain. Holders that are corporations are urged to consult their own tax advisors having regard to their own circumstances.

The Shares will be “taxable preferred shares” as defined in the Tax Act, and as a result, certain Holders that are corporations will be subject to tax under Part IV.1 of the Tax Act on dividends received on the Shares.

A Holder that is a “private corporation” or a “subject corporation”, as defined in the Tax Act, will generally be liable to pay a refundable tax under Part IV of the Tax Act on dividends received on the Shares to the extent such dividends are deductible in computing the Holder’s taxable income for the year. A “subject corporation” is generally a corporation controlled directly or indirectly by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts). Tax payable by a Holder under Part IV of the Tax Act on a dividend from the Fund will generally be reduced by the tax payable under Part IV.1 of the Tax Act by the Holder on such dividend.

In general terms, a Holder who is an individual (other than certain trusts) that receives or is deemed to have received taxable dividends on the Shares may be liable for alternative minimum tax under the Tax Act. Holders that are individuals should consult their own tax advisors in this regard.

### ***Disposition of Shares***

If the Fund redeems or otherwise acquires or cancels Shares, the Holder will be deemed to have received a dividend equal to the amount, if any, paid by the Fund in excess of the paid-up capital (as determined for purposes of the Tax Act) of such shares at such time. Any such deemed dividend will be subject to the same tax treatment as described above under “Dividends.”

Upon the redemption, retraction, or other disposition of a Share, a Holder will realize a capital gain (or capital loss) in the taxation year of the disposition equal to the amount by which the Holder’s proceeds of disposition, net of any reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base to the Holder of the Share immediately before the disposition or deemed disposition. The amount of any deemed dividend arising on the redemption by the Fund of Shares will not be included in computing the Holder’s proceeds of disposition for purposes of computing the capital gain (or capital loss) arising on the disposition of such Shares.

### ***Capital Gains and Losses***

A Holder will be required to include in computing its income for the taxation year of disposition one-half of the amount of any capital gain (a “**taxable capital gain**”) realized in such taxation year. Subject to and in accordance with the provisions of the Tax Act, a Holder will be required to deduct one-half of the amount of any capital loss realized in a particular taxation year (an “**allowable capital loss**”) against taxable capital gains realized in the taxation year. Allowable capital losses in excess of taxable capital gains for a taxation year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such taxation years, to the extent and under the circumstances specified in the Tax Act.

The amount of any capital loss realized on the disposition or deemed disposition of a Share by a Holder that is a corporation may, in certain circumstances, be reduced by the amount of dividends received or deemed to have been received by it on such share to the extent and under the circumstances specified in the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, partnership or trust is a member or beneficiary.

A Holder that is throughout the relevant taxation year a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay a refundable tax on its “aggregate investment income” (as defined in the Tax Act) for the year, including taxable capital gains.

In general terms, a Holder who is an individual (other than certain trusts) that realizes a capital gain on the disposition or deemed disposition of Shares may be liable for alternative minimum tax under the Tax Act. Holders that are individuals should consult their own tax advisors in this regard.

### ***International Information Reporting***

In 2010, the United States enacted legislation, generally referred to as the “Foreign Account Tax Compliance Act” (“**FATCA**”). On February 5, 2014, the United States and Canada entered into the *Canada-United States Enhanced Tax Information Exchange Agreement* (the “**IGA**”), which modifies the application of FATCA to certain Canadian entities including registered brokers and dealers and certain investment entities. On June 19, 2014, Canada enacted amendments to the Tax Act to implement the IGA as part of Canadian law. These amendments were added as Part XVIII of the Tax Act. The dealers through which Shareholders hold their Shares are subject to registration, information collection and reporting obligations contained in Part XVIII of the Tax Act and the IGA with respect to “financial accounts” such dealers maintain for their clients. Shareholders will generally be requested to provide their dealer with information related to their citizenship, residency and, if applicable, a U.S. federal tax identification number. If a Shareholder is a U.S. person (including a U.S. citizen or green card holder who is resident in Canada) or if a Shareholder does not provide the requested information, Part XVIII of the Tax Act and the IGA will generally

require information about the Shareholder's investment in the Company to be reported to the CRA, unless the investment is held within a Registered Plan. The CRA is expected to provide that information to the U.S. Internal Revenue Service.

### **ELIGIBILITY FOR INVESTMENT**

The Fund does not currently qualify as a "public corporation" for the purposes of the Tax Act. As a result, the Shares are not qualified investments under the Tax Act for trusts governed by registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), deferred profit sharing plans, registered disability savings plans and tax-free savings accounts ("TFSAs").

### **USE OF PROCEEDS**

The net proceeds from the issue of the Shares will be used by the Fund to acquire securities in accordance with the Fund's investment objective and strategies, and subject to the Fund's investment restrictions, either through purchases in the open market or through participation in public offerings or private placements.

A portion of the monthly management fee and the Performance Bonus, if earned, will be paid to the Manager out of the net proceeds of the offering. See "*Fees*". An affiliate of the Investment Advisor may provide brokerage services to the Fund from time to time, provided that the execution, prices and terms of such services are no less favourable than those generally offered by other brokers and dealers.

### **FEES**

#### **Monthly Management Fee**

The Manager is responsible for managing the ongoing business of the Fund and monitoring the Portfolio. In consideration for these and other services as described under "*Management of the Fund – The Manager*" and pursuant to the terms of the Management Agreement, within 10 business days after the end of each month, the Fund will pay the Manager a fee equal to one-twelfth of (i) 1.50% of Series Net Asset Value in respect of the Series B Shares; and (ii) 1.0% of the Series Net Asset Value in respect of the Series F Shares, based on the month-end Series Net Asset Value for such month (calculated without regard to such fee) plus applicable taxes and related expenses.

#### **Performance Bonus**

The Manager may also earn an annual performance bonus. If earned, the Fund will pay the Manager on an annual basis in respect of each fiscal year of the Fund and not later than 90 days after the end of each fiscal year, a performance bonus per Share of the Series B Shares and Series F Shares (the "**Performance Bonus**") equal to 15% of the amount by which the aggregate of:

- (a) the Series Net Asset Value per Share for the relevant series at the end of such fiscal year (without regard to any accrual of the Performance Bonus); and
- (b) any dividend per Share of such series declared during such year,

exceeds the Series Net Asset Value per Share for such series at the beginning of such fiscal year, plus applicable taxes; provided that no Performance Bonus shall be payable with respect to any fiscal year of the Fund unless the Fund generates an annual return on investment in respect of such series of at least 5% in such fiscal year and provided that the Series Net Asset Value per Share (including dividends) for the relevant series is greater than all previous values at the end of each previous fiscal year in which a Performance Bonus was paid. For this purpose, "return on investment" in respect of a series of Shares for a fiscal year shall be calculated by dividing (i) the amount by which the aggregate of the Series Net Asset Value per Share for the relevant series at the end of such fiscal year and any per Share dividend declared during such year in respect of the Shares of such series exceeds the Series Net Asset Value per Share for such series at the beginning of such fiscal year by (ii) the Series Net Asset Value per Share for the relevant series at the beginning of such fiscal year.

### Fees Payable by the Manager

All fees payable to the Investment Advisor for investment advisory services provided to the Fund and any Servicing Fee shall be borne by the Manager and paid out of the management fee paid to the Manager.

Currently, the Manager intends to pay a Servicing Fee of 0.50% of the Series Net Asset Value in respect of the Series B Shares that each dealer's clients have placed in the Fund. The Servicing Fee is calculated based on the closing balance of client accounts for each calendar month and paid monthly. The Servicing Fee will not be paid if the client's assets are removed from the Fund.

### Sales Charges Payable Directly by Investors

Neither the Fund nor the Manager charge a fee or commission when investors purchase Shares; however, an investor's dealer or advisor may charge an initial sales charge of up to 5% at the time of purchase of Series B Shares, which will reduce the amount of money that investor invests in the Series B Shares. This is a separate agreement between an investor and the dealer or advisor.

### Early Redemption Charge

Shares held by a Shareholder for less than twelve (12) months will be subject to an early redemption charge of 2.00% of the Net Asset Value of such Shares.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Manager and the Investment Advisor will receive the fees described under "Fees" for their respective services to the Fund and will be reimbursed by the Fund for all expenses incurred in connection with the operation and administration of the Fund. An affiliate of the Investment Advisor may provide brokerage services to the Fund from time to time, provided that the execution, prices and terms are no less favourable than those generally offered by other brokers or dealers.

Each of the Manager and Front Street Energy Opportunities Fund Inc. Voting Trust ("FSEOF VT") own three (3) common shares of the Fund, together representing 100% of the voting securities outstanding, such that the effective ownership interests in the Fund's common shares are as follows:

<u>Name</u>	<u>Front Street Energy Opportunities Fund Inc.</u> (effective percentage ownership)
FS Group Holdings Ltd. <sup>(1)</sup> .....	2.22225 common shares (37.04%) <sup>(7)</sup>
Lamarche Partner Corporation <sup>(2)</sup> .....	0.27225 common shares (4.54%) <sup>(7)</sup>
Mersch (AFAB) Partner Corporation <sup>(3)</sup> .....	0.27225 common shares (4.54%) <sup>(7)</sup>
2505024 Ontario Inc. <sup>(4)</sup> .....	0.15000 common shares (2.50%) <sup>(7)</sup>
Mistere Partner Corporation <sup>(5)</sup> .....	0.04500 common shares (0.75%) <sup>(7)</sup>
Hryma Partner Corporation <sup>(6)</sup> .....	0.03825 common shares (0.64%) <sup>(7)</sup>
Front Street Energy Opportunities Fund Inc. Voting Trust .....	3 common shares (50.00%) <sup>(8)</sup>
<b>Total</b> .....	<b>6 common shares (100.00%)<sup>(9)</sup></b>

#### Notes:

- <sup>(1)</sup> All of the voting securities of this corporation are directly owned by 2484703 Ontario Inc., a company controlled by Gordon McMillan, Cathmark Investment Ontario Inc., a company controlled by Edward Barr, Tim Diamond and Andy McKay.
- <sup>(2)</sup> All of the voting securities of this corporation are directly owned by 1582568 Ontario Inc., a company controlled by Normand Lamarche.
- <sup>(3)</sup> All of the voting securities of this corporation are directly owned by Milisenc Limited, a company controlled by Frank Mersch.
- <sup>(4)</sup> All of the voting securities of this corporation are directly owned by Gerard Ferguson.

- <sup>(5)</sup> All of the voting securities of this corporation are directly owned by Mistere Holdings Ltd., a company controlled by the Conway Family Trust.
- <sup>(6)</sup> All of the voting securities of this corporation are directly owned by 2190621 Ontario Inc., a company controlled by Linda Hryma.
- <sup>(7)</sup> Three (3) of the common shares of Front Street Energy Opportunities Fund Inc. issued and outstanding are owned by Front Street Capital 2004, a partnership of which the named individuals have the proportionate interests indicated. Due to rounding, percentages may not add to 100%.
- <sup>(8)</sup> Three (3) of the common shares of Front Street Energy Opportunities Fund Inc. issued and outstanding are owned by Front Street Energy Opportunities Fund Inc. Voting Trust (“FSEOF VT”). FSEOF VT is a trust established for the benefit of the holders of the Shares, the trustees of which are Lamarche Partner Corporation and Mersch (AFAB) Partner Corporation, the principals of which are Normand Lamarche and Frank Mersch, respectively.
- <sup>(7)</sup> Due to rounding, percentages may not add to 100%.

The directors and executive officers of the Fund indirectly owned 0.4605 common shares, representing a 7.67% interest in the common shares, of the Fund.

Members of the Investment Advisor’s ownership group also own all of the shares of Tuscarora Capital Inc., which may sell Shares to its clients and may charge a fee in respect of any such sales. Any fees payable by the Fund to the Investment Advisor and Tuscarora Capital Inc. are disclosed in the Fund’s annual financial statements.

### **MATERIAL CONTRACTS**

Material contracts that have been entered into by the Fund since its formation, other than contracts entered into in the ordinary course of business, are as follows:

- (a) the Articles referred to under “*The Fund*”;
- (b) the Investment Advisory Agreement between the Fund and the Investment Advisor referred to under “*Management of the Fund – The Investment Advisor*”;
- (c) an administrative services agreement between the Fund and a company which carries on the business of providing mutual fund and investment fund administrative services; and
- (d) a settlement services agreement between the Fund and the Custodian.

Copies of the contracts referred to above may be inspected during normal business hours at the offices of the Manager.

### **RISK FACTORS**

There are certain risks associated with an investment in the Shares. Prospective investors and their advisors should consider the following risk factors associated with an investment in Shares before subscribing for Shares:

#### **Reliance on the Investment Advisor**

The Fund will be dependent on the knowledge and expertise of the Investment Advisor for investment advisory and portfolio management services under the Investment Advisory Agreement. The Investment Advisor will depend to a great extent on the services of Normand G. Lamarche and the loss of the services of Mr. Lamarche for any reason could impair the ability of the Investment Advisor to provide advisory and portfolio management services to the Fund. The Investment Advisor may not be able to find a qualified replacement or may require an extended period of time to do so, which may prevent the Fund from achieving its investment objective.

#### **No Assurance of Achieving Investment Objective**

There can be no assurance that the Fund will meet its investment objective or that an investment in Shares will earn any positive return. An investment in Shares is speculative and appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

## **Performance and Marketability of Underlying Securities**

The Series Net Asset Value per Share will vary in accordance with the value of the securities held by the Fund. The value of securities owned by the Fund will be affected by factors beyond the control of the Investment Advisor or the Fund.

## **Smaller Capitalized Companies Risk**

The Fund will invest in securities of smaller capitalized companies. The share prices of smaller capitalized companies are usually more volatile and less liquid than those of more established larger capitalized companies. The market value of the securities of such issuers will be influenced primarily by the performance of the companies and stock market conditions generally. Smaller capitalized companies in the energy may be evaluating or developing unproven properties and may have no earnings or operating cash flow. They may have limited resources, including limited access to funds, or unproven management. The value of investment funds that buy these investments may rise and fall substantially and with greater frequency and magnitude.

## **Industry Risks Relating to Portfolio Securities**

Issuers in which the Fund invests may be subject to risks associated with the industries in which they operate. The operations and financial condition of resource-based issuers, including oil and gas royalty trusts, and the amount of distributions paid on their securities, is dependent in part on commodity prices applicable to the supply and demand, weather, general economic conditions and political conditions. Declining commodity prices may have an adverse effect on the operations and financial conditions of such issuers and the amount of distributions paid on their securities. In addition, certain commodity prices are based on a U.S. dollar market price. Accordingly, an increase in the value of the Canadian dollar against the U.S. dollar could reduce the amount of distributions paid on the securities of such resource-based issuers.

## **Illiquid Assets**

The Fund may invest in illiquid assets and there can be no assurance that the Fund will be able to dispose of such investments. If the Investment Advisor is unable or determines that it is inappropriate to dispose of some or all of the Portfolio securities prior to the Termination Date, Shareholders may, subject to applicable laws, receive distributions of securities *in specie* upon the termination of the Fund, for which there may be an illiquid market or which may be subject to resale restrictions of indefinite duration. A considerable period of time may elapse between the time a decision is made to sell such assets and the time the Fund is able to do so, and the value of such assets could decline during such period.

At the option of the Manager, in its discretion, payment of all or part of any redemption price may be made *in specie*, on a *pro rata* portion of the Portfolio. Property distributed on a redemption of Shares may or may not be a qualified investment for Registered Plans. See also “Risk Factors – Taxation of the Fund”.

## **Risks of Short Sales**

As one of its investment strategies, the Fund may engage in short selling securities. A short sale of a security may expose the Fund to losses if the price of the security sold short increases because the Fund may be required to purchase such securities in order to cover its short position at a higher price than the price at which such securities were sold short. The potential loss on the short sale of securities is unlimited, however the Fund will hold cash cover in an amount that is not less than the Fund’s aggregate market exposure to short positions, as determined daily on a mark-to-market basis. In addition, a short sale entails the borrowing of the security in order that the short sale may be transacted. There is no assurance that the lender of the security will not require the security to be repaid before the Fund wishes to do so, thereby requiring the Fund to borrow the security elsewhere or purchase the security in the market at an unattractive price. In addition, the borrowing of securities entails the payment of a borrowing fee. There is no assurance that a borrowing fee will not increase during the borrowing period, adding to the expense of the short sale strategy. In addition, there is no assurance that the security sold short can be repurchased due to supply and demand constraints in the marketplace.

## **Counterparty Risk**

In purchasing call or put options or entering into forward or future contracts, the Fund is subject to the credit risk that the counterparties (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet their respective obligations and that the Fund may incur losses as a result.

## **Use of Short-Term Margin Borrowings**

The Fund's anticipated use of short-term margin borrowings results in certain risks to the Fund. Trading securities on margin will result in interest charges and, depending on the amount of trading activity, such charges could be substantial. The level of interest rates generally, and the rates at which the Fund can borrow also may adversely affect the return of the Portfolio. Trading on margin and other leveraging strategies can increase the profit potential of a securities portfolio, but concurrently increase the risk of loss.

## **Debt Securities**

The Portfolio may include corporate and government debt securities, including debt securities which have low ratings from credit rating agencies or are unrated. Such debt securities may be regarded as speculative with respect to the issuer's ability to meet principal and interest payment obligations. They may also be more susceptible to adverse economic and competitive industry conditions than more highly rated securities and be less liquid than such securities. An analysis of the credit-worthiness of issuers of such debt may be more complex than for issuers of higher-quality debt obligations.

## **Leverage**

The Fund may incur indebtedness in the form of margin debt. In providing margin to the Fund, the Fund's prime broker will be subject to capital margin requirements of the Investment Industry Regulatory Organization of Canada. Such indebtedness may be secured by the Portfolio. There can be no assurance that such a strategy will enhance returns and in fact the strategy may reduce returns (both annual distributions and capital). If the securities in the Portfolio suffer a substantive decrease in value, the leverage component will cause a decrease in Net Asset Value in excess of that which would otherwise be experienced. In the event that any loan is called by the lender, the Fund may be required to liquidate the Portfolio to repay the indebtedness at a time when the market for the securities in the Portfolio may be depressed, thereby forcing the Fund to incur losses.

## **Use of Options and Other Derivative Instruments**

The Fund may use options and other derivatives to achieve its investment objective and to hedge the Fund's foreign currency exposure. There can be no assurance that the Fund's use of derivatives will be successful and it could restrict the Fund's ability to increase in value. The use of derivatives involves numerous risks including: (a) there is no guarantee that the Fund will be able to close out a derivative contract when it needs to; this could prevent the Fund from making a profit or limiting a loss; (b) a securities exchange could impose limits on the trading of derivatives and there can be no assurance that there will be a liquid over-the-counter market for the derivative held by the Fund; and (c) the value of derivative instruments can be highly volatile. Consequently, the Net Asset Value may be subject to a greater degree of volatility than it would if derivatives were not used.

## **Lack of Transferability of Shares**

The Shares will not be transferable except in limited circumstances and subject to compliance with resale restrictions under applicable securities laws.

## **Taxation of the Fund**

The Fund does not currently qualify as a mutual fund corporation under the Tax Act and there can be no assurances that the Fund will so qualify in the future. There can be no assurance that Canadian federal income tax laws and the

administrative policies and assessing practices of the CRA respecting the treatment of the Fund will not be changed in a manner which adversely affects the Shareholders.

### **Changes in Legislation**

There can be no assurance that securities laws and other laws, or the interpretation or application thereof, will not be changed in a manner that adversely affects the Fund or the Shareholders.

### **Conflicts of Interest**

The Fund may be subject to various conflicts of interest because the directors and senior officers of the Fund, the Manager and the Investment Advisor Mortgage are each engaged in a wide range of investment and other business activities. The Fund is not owned by the Manager and the Investment Advisor but is related by common management and personnel to the Manager and the Investment Advisor. This could create conflicts of interest between any of the Manager and the Investment Advisor and the Fund.

Front Street Capital 2004 (as Manager and Investment Advisor), its affiliates and their respective directors and officers may provide fund management, investment advisory and portfolio management services to other investment funds or other clients the other investment vehicles discussed in this Memorandum. None of the directors or officers of the Fund, Manager or Investment Advisor will devote his full time to the business and affairs of the Fund.

### **Foreign Investments**

Foreign investments made by the Fund may be subject to political risks, risks associated with changes in foreign exchange rates and foreign exchange control risks which could diminish the value of the Fund's foreign investments.

### **Redemptions of Shares**

Substantial redemptions of Shares may require the Fund to sell assets it would not otherwise sell and at less than optimal prices in order to raise the necessary cash to fund redemptions. Substantial redemptions may also require the Fund to sell assets to rebalance the Portfolio to reflect a smaller asset base. A smaller asset base could limit the investment opportunities available to the Fund and increase its expense ratio. Such factors could adversely affect the value of the Shares redeemed and of the Shares remaining outstanding.

The estimated Performance Bonus, if any, payable to the Manager will be accrued each NAV Valuation Date as a liability of the Fund, reducing the Series Net Asset Value per Share of the Fund. The redemption price received by an investor whose Shares are redeemed will reflect an accrual for the Performance Bonus, based on any increase in Series Net Asset Value per Share from the beginning of the fiscal year through the date of redemption. However, the accrual of the Performance Bonus may subsequently be reversed if the Fund's performance declines and no adjustment to a redemption price will be made after it has been fixed.

### **Lack of Operating History**

Although persons involved in the management and advising of the Fund and the service providers to the Fund have had long experience in their respective fields of specialization, the Fund has little operating and performing history upon which prospective investors can evaluate their performance. Investors should be aware that the past performance by those involved in the investment management of the Fund should not be considered as an indication of future results.

### **Status of the Fund**

Although the Fund is a "mutual fund" as defined in the securities legislation applicable in certain provinces, it does not operate in accordance with the requirements of National Instrument 81-102 – *Investment Funds* and other policies and regulations of the securities regulatory authorities that are applicable to mutual funds that have offered securities under a prospectus and are reporting issuers.

### **Potential Indemnification Obligations**

Under certain circumstances, the Fund might be subject to significant indemnification obligations in respect of the Manager, the Investment Advisor or certain parties related to them. The Fund will not carry any insurance to cover such potential obligations and none of the foregoing parties will be insured for losses for which the Fund has agreed to indemnify them. Any indemnification paid by the Fund would reduce the Fund's Net Asset Value and, by extension, the value of the Shares.

### **No Involvement of an Underwriter**

The Manager and Investment Advisor are under common control and ownership. No underwriter has been involved in establishing the terms of this offering or the structure of the Fund or in reviewing and investigating the background of the Manager and Investment Advisor.

### **AUDITORS**

The auditors of the Fund are Segal LLP, Chartered Professional Accountants, Toronto, Ontario.

### **REGISTRAR AND TRANSFER AGENT**

CIBC Mellon Global Securities Services Company, 320 Bay Street, Toronto, Ontario, M5H 4A6, Canada, acts as the registrar and transfer agent for the Shares and performs certain other administrative services for the Fund under an agreement dated October 29, 2015.

### **PURCHASERS' RIGHTS**

In certain circumstances, purchasers resident in certain provinces and territories of Canada are provided with a remedy for rescission or damages, or both, in addition to any other right they may have at law, where an offering memorandum and any amendment to it contains a misrepresentation. A "misrepresentation" is an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading or false in the light of the circumstances in which it was made. These remedies, or notice with respect thereto, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by the applicable securities legislation.

The following summary is subject to the express provisions of the applicable securities laws, regulations and rules, and reference is made thereto for the complete text of such provisions. Such provisions may contain limitations and statutory defences not described here on which the Issuer and other applicable parties may rely. **Purchasers should refer to the applicable provisions of the securities legislation of their province or territory for the particulars of these rights or consult with a legal adviser.**

The rights of action described below are in addition to and without derogation from any other right or remedy available at law to the purchaser and are intended to correspond to the provisions of the relevant securities legislation and are subject to the defences contained therein.

The following is a summary of rights of rescission or damages, or both, available to purchasers resident in certain of the provinces and territories of Canada.

#### **Ontario Purchasers**

Section 5.2 of OSC Rule 45-501 – *Ontario Prospectus and Registration Exemptions* provides that purchasers who have been delivered an offering memorandum in connection with a distribution of securities in reliance upon the "accredited investor" prospectus exemption in section 73.3 of the *Securities Act* (Ontario) (the "**Ontario Act**") have the rights referred to in section 130.1 of the Ontario Act. The Ontario Act provides such purchasers with a statutory right of action against the issuer of the securities for rescission or damages in the event that the offering memorandum and any amendment to it contains a misrepresentation.

Where an offering memorandum is delivered to a purchaser and contains a misrepresentation, the purchaser, without regard to whether the purchaser relied on the misrepresentation, will have a statutory right of action against the issuer for damages or for rescission; if the purchaser elects to exercise the right of rescission, the purchaser will have no right of action for damages against the issuer. No such action shall be commenced more than, in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action, or, in the case of any action other than an action for rescission, the earlier of: (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action; or (ii) three years after the date of the transaction that gave rise to the cause of action.

The Ontario Act provides a number of limitations and defences to such actions, including the following:

- (a) the issuer is not liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (b) in an action for damages, the issuer shall not be liable for all or any portion of the damages that the issuer proves does not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and
- (c) in no case shall the amount recoverable exceed the price at which the securities were offered.

These rights are not available for a purchaser that is:

- (a) a Canadian financial institution, meaning either:
  - (i) an association governed by the *Cooperative Credit Associations Act* (Canada) or a central cooperative credit society for which an order has been made under section 473(1) of that Act; or
  - (ii) a bank, loan corporation, trust company, trust corporation, insurance company, treasury branch, credit union, caisse populaire, financial services corporation, or league that, in each case, is authorized by an enactment of Canada or a province or territory of Canada to carry on business in Canada or a territory in Canada;
- (b) a Schedule III bank, meaning an authorized foreign bank named in Schedule III of the *Bank Act* (Canada);
- (c) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
- (d) a subsidiary of any person referred to in paragraphs (a), (b) or (c), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of the subsidiary.

### **Manitoba Purchasers**

The right of action for rescission or damages described herein is conferred by section 141.1 of the *Securities Act* (Manitoba) (the “**Manitoba Act**”). The Manitoba Act provides, in the relevant part, that in the event that an offering memorandum contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum is deemed to have relied on the representation if it was a misrepresentation at the time of purchase.

Such purchaser has a statutory right of action for damages against the issuer, every director of the issuer at the date of the offering memorandum and every person or company who signed the offering memorandum or, alternatively, while still an owner of the securities purchased by the purchaser, may elect instead to exercise a statutory right of rescission against the issuer, in which case the purchaser shall have no right of action for damages against the issuer or the directors. No such action may be commenced to enforce the right of action for rescission or damages more

than (a) 180 days after the day of the transaction that gave rise to the cause of action, in the case of an action for rescission; or (b) the earlier of (i) 180 days after the day that the plaintiff first had knowledge of the facts giving rise to the cause of action; or (ii) two years after the day of the transaction that gave rise to the cause of action, in any other case.

The Manitoba Act provides a number of limitations and defences, including the following:

- (a) no person or company is liable if the person or company proves that the purchaser had knowledge of the misrepresentation;
- (b) in the case of an action for damages, the defendant is not liable for all or any part of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the misrepresentation; and
- (c) in no case will the amount recoverable in any action exceed the price at which the securities were offered under the offering memorandum.

In addition, a person or company, other than the issuer, will not be liable if that person or company proves that:

- (a) the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent, and that, after becoming aware that it was sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the person's or company's knowledge and consent;
- (b) after becoming aware of the misrepresentation, the person or company withdrew the person's or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it;
- (c) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that the person or company did not have any reasonable grounds to believe and did not believe that (i) there had been a misrepresentation; or (ii) the relevant part of the offering memorandum (A) did not fairly represent the expert's report, opinion or statement; or (B) was not a fair copy of, or an extract from, the expert's report, opinion or statement; or
- (d) with respect to any part of the offering memorandum not purporting to be made on an expert's authority and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation; or (ii) believed there had been a misrepresentation.

If a misrepresentation is contained in a record incorporated by reference in, or is deemed to be incorporated into, an offering memorandum, the misrepresentation is deemed to be contained in the offering memorandum.

### **New Brunswick Purchasers**

Section 2.1 of New Brunswick Securities Commission Rule 45-802 provides that the rights of action referred to in section 150 of the *Securities Act* (New Brunswick) (the "**New Brunswick Act**") apply to information relating to an offering memorandum that is provided to a purchaser in securities in connection with a distribution made in reliance on the "accredited investor" prospectus exemption in section 2.3 of National Instrument 45-106 – *Prospectus Exemptions*. The New Brunswick Act provides such purchasers with a statutory right of action against the issuer of the securities for rescission or damages in the event that the offering memorandum and any amendment to it contains a misrepresentation.

The New Brunswick Act provides that, subject to certain limitations, where any information relating to an offering that is provided to a purchaser in the securities contains a misrepresentation, a purchaser who purchases the securities shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase. Such purchaser has a right of action for damages against the issuer or may elect to exercise a right of rescission against the issuer, in which case the purchaser shall have no right of action for damages. No such action shall be commenced more than, in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action or, in the case of any action, other than an action for rescission, the earlier of (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action: and (ii) six years after the date of the transaction that gave rise to the cause of action.

The New Brunswick Act provides a number of limitations and defences to such actions, including the following:

- (a) the issuer is not liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (b) in an action for damages, the issuer shall not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and
- (c) in no case shall the amount recoverable exceed the price at which the securities were offered.

#### **Newfoundland and Labrador Purchasers**

The right of action for rescission or damages described herein is conferred by section 130.1 of the *Securities Act* (Newfoundland and Labrador) (the “**NL Act**”). The NL Act provides, in the relevant part, that if an offering memorandum contains a misrepresentation when a person or company purchases a security offering by the offering memorandum, the purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages or rescission.

Such purchaser has a statutory right of action for damages against the issuer, every director of the issuer at the date of the offering memorandum and every person who signed the offering memorandum. Alternatively, the purchaser has a right of action for rescission against the issuer, in which case the purchaser shall have no right of action for damages against the persons described above. No such action may be commenced to enforce the right of action for rescission or damages more than (a) 180 days after the day of the transaction that gave rise to the cause of action, in the case of an action for rescission; or (b) the earlier of (i) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action; or (ii) three years after the day of the transaction giving rise to the cause of action, in any other case.

The NL Act provides a number of limitations and defences, including the following:

- (a) no person is liable if the person proves that the purchaser had knowledge of the misrepresentation;
- (b) in the case of an action for damages, the defendant is not liable for any damages that the defendant proves do not represent the depreciation in value of the security resulting from the misrepresentation; and
- (c) the amount recoverable in respect of such action shall not exceed the price at which the securities were offered under the offering memorandum.

In addition, a person, other than the issuer, is not liable if the person proves that:

- (a) the offering memorandum was sent to the purchaser without the person’s knowledge or consent, and that, upon becoming aware of its being sent, the person had promptly given reasonable notice to the issuer that it had been sent without the knowledge and consent of the person;

- (b) the person, upon becoming aware of the misrepresentation in the offering memorandum, withdrew the person's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it;
- (c) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that (i) there had been a misrepresentation; or (ii) the relevant part of the offering memorandum (A) did not fairly represent the report, statement or opinion of the expert; or (B) was not a fair copy of, or an extract from, the report, statement or opinion of the expert; or
- (d) with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, an extract from, a report, opinion or statement of an expert, unless the person or company (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation; or (ii) believed there had been a misrepresentation.

### **Nova Scotia Purchasers**

The right of action for rescission or damages described herein is conferred by section 138 of the *Securities Act* (Nova Scotia) (the "**Nova Scotia Act**"). The Nova Scotia Act provides, in the relevant part, that in the event that an offering memorandum, together with any amendments hereto, or any advertising or sales literature (as defined in the Nova Scotia Act) contains a misrepresentation, a purchaser who purchases the securities referred to in it is deemed to have relied upon such misrepresentation if it was a misrepresentation at the time of purchase.

Such purchaser has a statutory right of action for damages against the seller (which includes the issuer) and, subject to certain additional defences, the directors of the seller and any person who signed the offering memorandum or, alternatively, while still an owner of the securities purchased by the purchaser, may elect instead to exercise a statutory right of rescission against the issuer, in which case the purchaser shall have no right of action for damages against the seller or the directors. No such action shall be commenced to enforce the right of action for rescission or damages more than 120 days after the date payment was made for the securities (or after the date on which initial payment was made for the securities where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment).

The Nova Scotia Act provides a number of limitations and defences, including the following:

- (a) no person or company is liable if the person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (b) in the case of an action for damages, no person or company is liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation; and
- (c) in no case will the amount recoverable in any action exceed the price at which the securities were offered to the purchaser.

In addition, a person or company, other than the seller, will not be liable if that person or company proves that:

- (a) the offering memorandum or any amendment to the offering memorandum was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent;
- (b) after delivery of the offering memorandum or any amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any

misrepresentation in the offering memorandum or any amendment to the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum or any amendment to the offering memorandum, and gave reasonable general notice of the withdrawal and the reason for it; or

- (c) with respect to any part of the offering memorandum or any amendment to the offering memorandum purporting (i) to be made on the authority of an expert; or (ii) to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that (A) there had been a misrepresentation; or (B) the relevant part of the offering memorandum or any amendment to the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Furthermore, no person or company, other than the seller, is liable with respect to any part of the offering memorandum or any amendment to the offering memorandum not purporting (a) to be made on the authority of an expert; or (b) to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or (ii) believed that there had been a misrepresentation.

If a misrepresentation is contained in a record incorporated by reference into, or deemed incorporated by reference into, the offering memorandum or amendment to the offering memorandum, the misrepresentation is deemed to be contained in the offering memorandum or amendment to the offering memorandum.

### **Prince Edward Island Purchasers**

The right of action for rescission or damages described herein is conferred by section 112 of the *Securities Act* (Prince Edward Island) (the "**P.E.I. Act**"). The P.E.I. Act provides, in the relevant part, that if an offering memorandum contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages.

Such purchaser has a statutory right of action for damages against the issuer, the selling security holder on whose behalf the distribution is made, every director of the issuer at the date of the offering memorandum and every person who signed the offering memorandum. Alternatively, the purchaser who purchases security offered by the offering memorandum during the period of distribution has a right of action for rescission against the issuer or the selling security holder on whose behalf the distribution is made, in which case the purchaser shall have no right of action for damages against the persons described above. No such action may be commenced to enforce the right of action for rescission or damages more than (a) 180 days after the day of the transaction that gave rise to the cause of action, in the case of an action for rescission; or (b) the earlier of (i) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action; or (ii) three years after the day of the transaction giving rise to the cause of action, in any other case.

The P.E.I. Act provides a number of limitations and defences, including the following:

- (a) no person is liable if the person proves that the purchaser purchased securities with knowledge of the misrepresentation;
- (b) in the case of an action for damages, the defendant is not liable for any damages that the defendant proves do not represent the depreciation in value of the security resulting from the misrepresentation; and
- (c) the amount recoverable by a plaintiff in respect of such action must not exceed the price at which the securities purchased by the plaintiff were offered.

In addition, a person, other than the issuer and selling security holder, is not liable if the person proves that:

- (a) the offering memorandum was sent to the purchaser without the person's knowledge or consent, and that, upon becoming aware of its being sent, the person had promptly given reasonable notice to the issuer that it had been sent without the knowledge and consent of the person;
- (b) the person, upon becoming aware of the misrepresentation in the offering memorandum, had withdrawn the person's consent to the offering memorandum and had given reasonable notice to the issuer of the withdrawal and the reason for it; or
- (c) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that (i) there had been a misrepresentation; or (ii) the relevant part of the offering memorandum (A) did not fairly represent the report, statement or opinion of the expert; or (B) was not a fair copy of, or an extract from, the report, statement or opinion of the expert.

In addition, a person is not liable with respect to a misrepresentation in forward looking information if:

- (a) the offering memorandum containing the forward looking information also contains, proximate to the forward looking information (i) reasonable cautionary language identifying the forward looking information as such and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward looking information; and (ii) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward looking information; and
- (b) the person had a reasonable basis for drawing the conclusions or making the forecast or projections set out in the forward looking information.

The above paragraph does not relieve a person of liability respecting forward looking information in a financial statement required to be filed under Prince Edward Island securities laws.

### **Saskatchewan Purchasers**

The right of action for rescission or damages described herein is conferred by section 138 of the *Securities Act*, 1988 (Saskatchewan) (the "**Saskatchewan Act**") The Saskatchewan Act provides, in the relevant part, that in the event that an offering memorandum, together with any amendments hereto contains a misrepresentation, a purchaser who purchases securities covered by the offering memorandum is deemed to have relied upon such misrepresentation if it was a misrepresentation at the time of purchase.

Such purchaser has a statutory right for rescission against the issuer or has a right of action for damages against:

- (a) the issuer;
- (b) every promoter and director of the issuer, as the case may be, at the time the offering memorandum or any amendment to it was sent or delivered;
- (c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;
- (d) every person or company that, in addition to the persons or companies mentioned in clauses (a) to (c), signed the offering memorandum or the amendment to the offering memorandum; and
- (e) every person who or company that sells securities on behalf of the issuer under the offering memorandum or amendment to the offering memorandum;

If such purchaser elects to exercise a statutory right of rescission against the issuer, it shall have no right of action for damages against that person or company. No such action for rescission or damages shall be commenced more than, in the case of a right of rescission, 180 days after the date of the transaction that gave rise to the cause of action or, in the case of any action, other than an action for rescission, such action shall be commenced before the earlier of (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; and (ii) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan Act provides a number of limitations and defences, including the following:

- (a) no person or company will be liable if the person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (b) in the case of an action for damages, no person or company will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation; and
- (c) in no case will the amount recoverable in any action exceed the price at which the securities were offered to the purchaser.

In addition, no person or company, other than the issuer, will be liable if the person or company proves that:

- (a) the offering memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered; or
- (b) with respect to any part of the offering memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the part of the offering memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Similar rights of action for damages and rescission are provided in section 138.1 of the Saskatchewan Act in respect of a misrepresentation in advertising and sales literature disseminated in connection with an offering of securities.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser has a right of action for damages against the individual who made the verbal statement without regard to whether the purchaser relied on the misrepresentation.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if the securities are sold in contravention of such Act, the regulations to such Act or a decision of the Saskatchewan Financial Services Commission.

Section 141(2) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment thereto was required by Section 80.1 of the Saskatchewan Act to be sent or delivered but was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities.

The Saskatchewan Act also provides that a purchaser who has received an amended offering memorandum delivered in accordance with subsection 80.1(3) of such Act has a right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the securities, indicating the

purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

### **Territorial Purchasers**

The rights of action for rescission or damages described herein are conferred by section 112 of each of the *Securities Acts* of the Yukon, Northwest Territories and Nunavut (each Act, a "**Territorial Act**"). Each Territorial Act provides, in the relevant part, that if an offering memorandum contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages.

Such purchaser has a statutory right of action for damages against the issuer, the selling security holder on whose behalf the distribution is made, every director of the issuer at the date of the offering memorandum and every person who signed the offering memorandum. Alternatively, the purchaser who purchases security offered by the offering memorandum during the period of distribution has a right of action for rescission against the issuer or the selling security holder on whose behalf the distribution is made, in which case the purchaser shall have no right of action for damages against the persons described above, including the directors of the issuer and the persons who signed the offering memorandum. No such action may be commenced to enforce the right of action for rescission or damages more than (a) 180 days after the day of the transaction that gave rise to the cause of action, in the case of an action for rescission; or (b) the earlier of (i) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action; or (ii) three years after the day of the transaction giving rise to the cause of action, in any other case.

Each Territorial Act provides a number of limitations and defences, including the following:

- (a) no person is liable if the person proves that the purchaser purchased securities with knowledge of the misrepresentation;
- (b) in the case of an action for damages, the defendant is not liable for any damages that the defendant proves do not represent the depreciation in value of the security resulting from the misrepresentation; and
- (c) the amount recoverable by a plaintiff in respect of such action must not exceed the price at which the securities purchased by the plaintiff were offered.

In addition, a person, other than the issuer and selling security holder, is not liable if the person proves that:

- (a) the offering memorandum was sent to the purchaser without the person's knowledge or consent, and that, upon becoming aware of its being sent, the person had promptly given reasonable notice to the issuer that it had been sent without the knowledge and consent of the person;
- (b) the person, upon becoming aware of the misrepresentation in the offering memorandum, had withdrawn the person's consent to the offering memorandum and had given reasonable notice to the issuer of the withdrawal and the reason for it; or
- (c) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that (i) there had been a misrepresentation; or (ii) the relevant part of the offering memorandum (A) did not fairly represent the report, statement or opinion of the expert; or (B) was not a fair copy of, or an extract from, the report, statement or opinion of the expert.

In addition, a person is not liable with respect to a misrepresentation in forward looking information if:

- (a) the offering memorandum containing the forward looking information also contains, proximate to the forward looking information (i) reasonable cautionary language identifying the forward looking information as such and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward looking information; and (ii) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward looking information; and
- (b) the person had a reasonable basis for drawing the conclusions or making the forecast or projections set out in the forward looking information.

The above paragraph does not relieve a person of liability respecting forward looking information in a financial statement required to be filed under securities laws of the applicable territory.

#### **LANGUAGE OF DOCUMENTS**

Upon receipt of this document, each Canadian investor hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*