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Partners in Capital Growth

Income Value Account

Account Objective

The objective of the Account is to generate income and capital gains with modest volatility by constructing a well-diversified Income Value Portfolio (max 5% weighting per position) composed of dividend paying common shares, debt, convertible debt, heavily hedged convertible arbitrage positions, and capital structure arbitrage and takeover arbitrage positions.

Options may be used but solely to protect the invested capital, enhance the price at which securities are acquired, or enhance the price at which securities are sold.

Portfolio Investments

Corporate Debt:

Strategy: The purchase of corporate debt that provides an attractive yield - where the capital is protected by business and balance sheet strength.

Benefit to Investor: Regular yield (income), capital appreciation, known beginning and end date (maturity).

Risks: Interim pricing risk with rising interest rates, and default.

Example: Company A debt trades at $80, a 20% discount from its maturity in X years, and at its current market price offers a return of Y%. We estimate that the bond is undervalued by the market.

Corporate Convertible Debt:

Strategy: The purchase of convertible corporate debt, similar to the purchase of straight debt with the "kicker" of the right of conversion to the common equity of the issuer for incremental return.

Benefit to Investor: Regular yield (income), capital appreciation, known beginning and end date (maturity), and participation in the upside of the common stock.

Risks: Interim pricing risk with rising interest rates, decline in underlying common stock price, default.

Example: Company B convertible debt trades at $70, a 30% discount from its maturity value in X years, and at its current price offers a return of Y%. We estimate that the underlying common shares are undervalued by the market.

Dividend Paying Equity:

Strategy: The purchase of common shares that pay a dividend and which can be purchased at a discount to their intrinsic business value.

Benefit to Investor: Regular yield (dividends) and the opportunity for capital appreciation from the stock purchased returning to fair business value through market action or corporate undertaking.

Risk: Equity prices are subject to changes in market perception about their values, and cheap stocks can get cheaper before recovering to values more representative of their true worth.

Example: Stock C is currently trading at 40% of our estimate of its intrinsic value, and pays an annual dividend equal to 4% of the current trading price. Purchasing C offers a tax-advantaged annual return of 4% and offers the potential of a 150% capital gain appreciation assuming our intrinsic value estimate is correct.

Convertible Arbitrage:

Strategy: The purchase of the convertible bond of an issuer and the short sale of the common shares in to which the convertible can be converted. Our style of hedging is often called "cash and carry" meaning it is a passive arbitrage position designed to benefit from the bond cash flow stream and a widening of the convertible bond/common spread in the event of negative volatility (most likely a declining share price).

Benefits to Investor: Cash flow of approximately 15-20% from the hedged bond position. Opportunity for profit above and beyond this cash flow in environments where (i) share prices fall and/or (ii) share price volatility and/or (iii) share price of hedged situation falls.

Risks: Takeover for cash, permanent improvement in share price during life of position.

Yield Example:

<table>
<tr><td>Buy $100,000 bonds 5% company D</td><td>Sell $80,000 shares company D</td></tr>
<tr><td colspan="2">Net Cost: 100,000-80,000=$20,000 (capital invested)

Annual income: $5,000 annual coupon - $1000 stock rental fee (1.25%) = net cash flow $4,000

Annual yield: $4,000 / $20,000 = 20%</td></tr>
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Capital Structure Arbitrage:

Strategy: The purchase of one part of the capital structure of a Company and the sale of another related component of the capital structure when the two securities relative values are misaligned.

Benefit to Investor: A return that is generated from the temporary misalignment of relative values and not dependent upon market conditions.

Risks: The anticipated event does not occur, or is structured differently than expected causing the misalignment to continue or intensify.

Example: Company E is to be reorganized. Bond X and bond Y of company E trade at a 4 point differential. However in the reorganization both bonds will become the same causing the spread to disappear.

Takeover Arbitrage:

Strategy: The purchase of the bonds or shares subject to a takeover event. This may involve the outright purchase of the bond or share of the target company or the purchase of a bond or share and the sale of the securities of the offeror if the deal is to be completed with shares instead of cash. We focus on friendly transactions or those that have a high probability of being completed.

Benefits to Investor: A return profile that has a known beginning and end and a return that is not specifically dependent upon market conditions.

Risks: The transaction is not completed.

Example: Company F announces its intent to buy Company G for shares so that for each share of Company G owned investors will receive 5 shares of Company F. If the current price differential is attractive, for every 5 shares of Company F we purchase we would sell 1 share of Company G.

Portfolio Structure and Investment Limits:

Single position maximum size**:** no single position (either single security position or in the case of convertible arbitrages the net value of the total position) will account for more than 5% of the equity of the portfolio at the time of its acquisition.

For arbitrages other than convertible arbitrages, the limit will be understood as being 5% of portfolio equity for the long position and 5% of portfolio equity for the short position, and the total portfolio allocation will be understood to be the gross sum of the two positions.

Composition guideline**:** We seek to diversify the portfolio among the various investment strategies with the goal of creating a balanced portfolio composition according to the guidelines below.

Investment limits per asset class, based on market value at time of assessment (percent of portfolio total market value).	Minimum	Foreseen allocation range	Maximum allocation at time of purchase*	Maximum market value within portfolio**
Corporate Debt	0%	30-50%	60%	75%
Dividend Paying Equity	0%	30-50%	50%	60%
Convertible Arbitrage (net value)	0%	10-20%	25%	30%
Capital Structure Arbitrage (net value) & Takeover Arbitrage (net value)	0%	0-10%	15%	20%

* Applies solely to the investment class for which an investment is being purchased.

** Preserves space for potential future growth of investments value.

Options:

- Call options may be sold with a call price equal or higher to the price at which we are planning to sell a security we own, and for up to the quantity of securities we own.

- Put option may be sold with a put price equal or lower than the price at which we have decided to buy a security, and for up to quantity of securities we plan to buy.
- Put options may be bought to protect the price at which we will sell a security we own should adverse developments occur.
- Call options may be bought to protect the price at which we will buy back a security shorted as part of a hedged position.

Distributions

Income and realized gains will be distributed partially or totally as per the Investor's instructions. Undistributed income may be reinvested.

Risks

Risks are associated with an investment in the portfolio: fluctuation in value of the portfolio, no assurance of achieving the investment objectives, loss of investment, , credit risk, taxation, conflicts of interest, change in laws, risks related to convertible debentures, risks related to merger arbitrage, risks related to global financial developments, use of short selling, composition of the portfolio, liquidity of the portfolio, uses of derivatives and hedging, interest rates risk, currency fluctuations, valuation, reliance on the manager.

Please refer to the Investment Management Agreement.

Fees:

Management fee:

- 2.00% on the first $1,000,000
- 1.75% on the next $1,500,000
- 1.50% on the next $2,500,000
- 1.25% on the amount above $5,000,000.

Performance fee*: e*qual to 20% of the amount by which the net performance of the Account over the last 12 months exceeds the Hurdle Rate subject to a High Water Mark.

The Hurdle Rate is equal to 2.5% plus half the average rate of the Government of Canada 5 year bond over the last 12 months.

Disclaimer

The past success of the above mentioned strategies is not a guarantee of future performance. This document is offered for informational purposes only and does not constitute an offer to buy or sell any securities. There can be no assurance that a consistent return will be achieved, and an investor may in fact incur losses.

Takota Asset Management Inc.

Octobre 11, 2017