

# PROOF CAPITAL – CONFLICTS OF INTEREST DISCLOSURE & POLICY

## Offering Memorandum Excerpt (sections 10.1 to 10.3)<sup>(1)</sup>

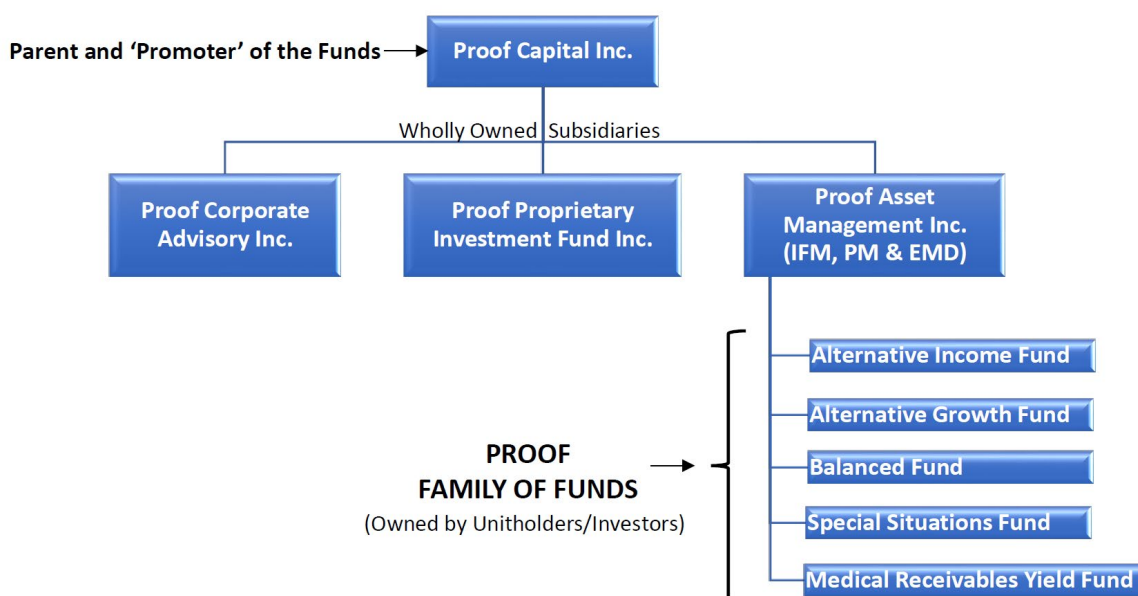
### ITEM 10 CONFLICTS OF INTEREST

#### 10.1 General Comments on How Conflicts of Interests Are Addressed

The Proof Family of Funds are subject to several existing and potential conflicts of interest as described in further detail below. Each of Proof Capital Inc., its subsidiaries, the Funds, and the Manager emphasize integrity when dealing with investors and will deal fairly, honestly and in good faith with all investors and will address all conflicts in the best interest of investors in the Fund.

#### Structure and Description of Proof's Wholly Owned Subsidiaries

Proof has the following three wholly owned subsidiaries: Proof Corporate Advisory Inc. ("**Proof Advisory**"), Proof Proprietary Investment Fund Inc. ("**PROP Fund**"), and Proof Asset Management Inc. ("**PAM**"). Transactions between these subsidiaries and with Proof have not been, and cannot be, negotiated at arm's length.



The goal of Proof's corporate structure is to address conflicts with respect to inter-corporate transactions by aligning interests between Proof, its subsidiaries and the Fund. The Board of Directors of Proof believe this alignment is supported by the following four tenets:

- By virtue of the internal sourcing and structuring of its own private investment opportunities by Proof's subsidiary, Proof Corporate Advisory Inc., the Funds may be able to access high quality investment opportunities that may be less volatile than those in the public markets (in which the Manager may or may not invest);
- By investing along-side investors in the Funds through Proof Proprietary Investment Fund Inc., Proof demonstrates both confidence in the quality of its investments and willingness to accept the same risks as investors in the Funds;

<sup>(1)</sup> This excerpt was taken from pages 27-31 of the Proof Capital Alternative Income Fund Offering Memorandum, but is mirrored in the Offering Memorandums of the Proof Capital Family of Funds..

- By the directors of Proof accepting directorships in certain of the entities in which it has structured its investments, Proof maintains access to information to support Fund investment decisions; and
- By using the PROP Fund as a venture capital incubator, Proof nurtures a potential source of quality future investment opportunities for the Funds.

Proof Advisory may earn advisory and/or origination fees from performing due diligence and structuring securities in which the Manager may or may not direct the Fund to invest. No such fees will be payable by the Fund and no portion of such fees will be payable to the Manager. The PROP Fund may invest in parallel with the Fund or it may invest in opportunities in which the Fund either cannot or chooses not to invest, all as further discussed below. Any related situations that result in a potential conflict of interest shall be referred to the Conflict Advisory Board (see below).

#### Conflict Advisory Board

Proof has established a conflict advisory board ("**Conflict Advisory Board**") whose mandate is to provide recommendations and advice to Proof, Proof Corporate Advisory Inc. ("**Proof Advisory**"), Proof Proprietary Investment Fund Inc. ("**PROP Fund**"), Proof Asset Management Inc. ("**PAM**" or the "**Manager**"), , and the Proof Family of Funds (the "**Funds**"), to address existing or potential conflicts of interest in the best interests of the investors of the particular fund and in compliance with all applicable laws and best practices. The Conflict Advisory Board members shall be appointed by Proof's Board of Directors and will include qualified individuals, the majority of whom will at all times be independent from Proof and its subsidiaries. The identities of the members of the Conflict Advisory Board at any given time shall be publicly disclosed on Proof's website ([www.proofcapital.ca](http://www.proofcapital.ca)).

## **10.2 Specific Conflicts and How They Will Be Addressed**

### The Manager

The Manager is a registered Exempt Market Dealer, an Investment Fund Manager, and a Portfolio Manager. The Funds may invest in securities of Underlying Funds for which the Manager is the manager and/or portfolio manager in accordance with applicable securities laws and with any regulatory orders it has obtained. As a result, there are potential conflicts of interest that could arise in connection with the Manager acting in its capacities as Exempt Market Dealer, Investment Fund Manager, and Portfolio Manager and as the manager and/or portfolio manager of both the Funds and the Underlying Funds. In order to address this conflict, the Manager has adopted a conflict of interest policy to address and minimize those potential conflicts of interest. The policy states that the Manager will deal fairly, honestly and in good faith with all clients (including the Funds and any Underlying Funds) and not advantage one client over another.

### Services of the Manager and the Promoter not Exclusive to the Funds

The Manager, Proof, PAM, and their respective partners, directors, and officers as well as their respective employees, agents and associates who have access to, or participate in formulating and making decisions on behalf of the Funds or advice to be given to the Funds (each, an "**Access Person**" and collectively the "**Access Persons**") are also engaged in a variety of management, advisory, and other portfolio management and financial planning activities which may or may not involve an investment in the Funds.

The Services of the Access Persons are not exclusive to the Funds. Such examples include, but are not limited to:

- The Chief Investment Officer of the Promoter is also an Advising Representative of the Manager.
- The Manager and the Promoter may, at any time, engage in the promotion, management or portfolio management of any other fund or trust (including any Underlying Funds) and provide similar services to other investment funds and other clients and engage in other activities.

Access Persons will, therefore, have conflicts of interest in allocating management time, services and functions among the

Fund and such other persons for which it provides services (including any Underlying Funds). In order to address this conflict, all Access Persons will devote as much of their respective time and resources to the activities of the Fund as in their respective judgment is reasonably required and will ensure a fair and equitable allocation of its management time, services and functions between the Fund and any other such persons to whom it provides services.

#### Proof Corporate Advisory Inc.

Proof Advisory clients may include both public and private entities (“**Advisory Clients**”), some of which the Fund may decide to invest in. Proof Advisory analyzes the risks and opportunities of Advisory Clients, develops structures and terms for potential financing solutions, develops strategic alternatives, and recommends and introduces potential capital providers. The PROP Fund and the Fund are potential funding sources for Advisory Clients, and either may, from time to time and as deemed appropriate, invest solely or with other investors in these opportunities. A potential conflict of interest may arise when the Fund invests in the securities of any entity to which Proof Advisory is also providing advisory services and earning an advisory and/or origination fee from the Advisory Client. To address the potential fee conflict caused by Proof Advisory receiving fees related to the Fund’s investments, Proof Advisory shall seek to align its interests with the interests of investors by ensuring that unless otherwise agreed to by the CAB, the amount of fees it receives shall be consistent with industry practices. Further, unless otherwise agreed by the CAB, Proof Advisory shall receive such fees in one of the following three manners:

- Payment of at least 50% of advisory and origination fees shall be received “in kind” in securities of the issuer, which securities will be subject to a minimum one (1) year holding period;
- Advisory and origination fees shall be received in the form of a carried interest that is earned after the Fund receives an aggregate amount of dividends, distributions or return of capital equal to at least a 100% of invested capital; or
- Advisory or origination fees may only be received 100% in cash if either: (i) the cash fee is not more than 1.0% of aggregate capital raised for the Advisory Client; or (ii) Proof Advisory enters into an agreement with the Advisory Client that in the event the investment is liquidated and the Fund has not received an aggregate amount of dividends, distributions or return of capital equal to at least 100% of invested capital, all fees paid to Proof Advisory by the Advisory Client shall be advanced by Proof Advisory on behalf of the Advisory Client to the Fund as a return of invested capital.

If Proof Advisory receives fees in any way other than the above three manners prior to a CAB decision with respect to the same, all such fees shall be held in escrow until CAB has had the opportunity to review the potential conflict:

- If/when CAB is satisfied that the potential conflict has been adequately addressed, the fees shall be released to Proof Advisory; or
- However, if/when CAB concludes that the potential conflict of interest CANNOT be adequately addressed in the best interest of investors in the fund, the fees being held in escrow are to be returned to the Advisory Client (rather than advanced to Proof Advisory).

Proof Advisory shall promptly notify the Conflict Advisory Board of any such situations. Proof Advisory shall also provide the Conflict Advisory Board with sufficient information to provide considered advice on the matter, and give full and sufficient consideration to the Conflict Advisory Board’s recommendations where a potential conflict of interest exists, taking care to adopt recommendations the Conflict Advisory Board believes are sufficient to ensure the conflict has been adequately addressed in the best interests of investors of the Fund. Proof Advisory shall not accept advisory or origination fees in a manner different than the three methods described above without the approval of the Conflict Advisory Board.

#### Directorships

A potential conflict of interest may arise when an individual Access Person accepts a directorship in an entity in which the Funds have invested or in which the Manager is considering an investment. This is a potential conflict of interest because the

individual Access Person's fiduciary duty as a director to the 3rd party entity could potentially come into conflict with its fiduciary duty to the Funds.

The individual Access Person shall promptly notify the Conflict Advisory Board of such directorships and shall also provide the Conflict Advisory Board with sufficient information to provide considered advice on any such matter, and give full and sufficient consideration to the Conflict Advisory Board's recommendations where a potential conflict of interest exists, taking care to adopt recommendations the Conflict Advisory Board believes are sufficient to ensure the conflict has been adequately addressed in the best interests of investors in the Funds. If the conflict cannot be adequately addressed by any other means, then the individual Access Person shall recuse themselves from the directorship.

With respect to Directorship disclosure, the Manager shall comply with the Disclosure to Clients requirements set out in National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations, as may be amended from time to time. In addition, Proof will post and maintain on its website ([www.proofcapital.ca](http://www.proofcapital.ca)) a list of all the directorships of Access Persons.

#### Parallel Investments of Access Persons

A potential conflict of interest may arise when Access Persons make a parallel investment alongside the Fund if the allotment of such investments is not equitably distributed. To address this potential conflict, when the Fund and one or more Access Persons are engaged in the purchase or sale of the same security, such parallel investments shall be allocated and disposed of in a fair and equitable basis (and with full consideration to the advice of the Conflict Advisory Board). The Manager's investment decisions for the Funds shall be made in the best interests of investors of the Funds.

#### Allocation of Investment Opportunities Amongst the Manager's Clients

The Manager may make an investment in the Fund and/or for one or more of its clients. If one or more of the clients of the Manager are engaged in the purchase or sale of the same security, the transactions will generally be effected on an equitable basis. However, the Manager may determine from time to time that some investment opportunities are appropriate for certain investment management clients and not others due to differing objectives, time horizons, liquidity needs or availability, tax consequences and assessments of general market conditions and of individual securities. The Manager may also occasionally determine it to be necessary to allocate limited investment opportunities among the managed accounts under its responsibility, on a basis deemed appropriate by the Manager.

#### Self-Dealing

A potential conflict of interest could develop any time the Funds purchase a security from, or sells a security to, the PROP Fund or its officers or directors (the "**Self-Dealing Parties**").

The Funds shall not be permitted to make an investment in an issuer in which any officer or director of the Funds, Proof, the PROP Fund, or the Manager beneficially owns, either directly or indirectly, more than 10% of the outstanding shares or units of the issuer, or if all officers and directors of the aforementioned entities combined beneficially own, either directly or indirectly, more than 50% of the outstanding shares or units of the issuer.

To address this potential conflict of interest, trades between the Funds and a Self-Dealing Party will only be permitted if the trading price is established to be at fair market value that is validated by a third-party transaction (including a coincident equity financing by the issuer). In addition, no permitted trade between the Funds and a Self-Dealing Party shall proceed without first addressing the potential trade with the Conflict Advisory Board. The Funds and the applicable Self-Dealing Party will provide the Conflict Advisory Board with sufficient information to allow the Conflict Advisory Board to advise on any such matter. The Funds and the Self-Dealing Party will give full and sufficient consideration to the Conflict Advisory Board's recommendations on potential investments where a potential conflict of interest exists, taking care to adopt recommendations the Conflict Advisory Board believes are sufficient to ensure the conflict has been adequately addressed



in the best interests of investors in the Funds. If the conflict cannot be adequately addressed, then the trade will not be permitted.

With respect to Self-Dealing disclosure, the Manager shall comply with the Disclosure to Clients requirements set out in National Instrument 31-103 - *Registration Requirements, Exemptions and Ongoing Registrant Obligations*, as may be amended from time to time. In addition, Proof will post and maintain a list of all the holdings of the PROP Fund on its website ([www.proofcapital.ca](http://www.proofcapital.ca)).

#### Proprietary Products

A potential conflict of interest could be created if both Proof proprietary products and non-proprietary products are sold to investors, and if the proprietary products have higher sales commissions attached to them than the non-proprietary products. To address the potential conflict, Proof has adopted a conflict of interest policy which provides that the same sales commissions shall be attached to all Proof products sold to investors, regardless of whether or not the products are proprietary or non-proprietary. In addition, the name of Proof's firm and the name of its proprietary investment products shall intentionally be made sufficiently similar such that further disclosure is not necessary to affirm which of Proof's funds are proprietary.

#### Separation of Advisory Functions

Units of a fund may be sold by individuals registered as a dealing representative. In the context of a proprietary fund, there is a conflict of interest between the dealing representative sales function and the advising representative advisory function. Therefore, at all times there shall be a separation of the sales and advisory functions of a fund such that the individual or individuals advising a fund shall not act as a dealing representative with respect to sales of the fund's units.

### **10.3 Connected and Related Issuers**

The Manager is registered as a dealer and an adviser with securities regulatory authorities and regulators in Alberta, British Columbia, New Brunswick, Nova Scotia, Ontario, Québec, Manitoba, and Saskatchewan. Those securities regulatory authorities and regulators, among others, have expressed concerns that, when a registered dealer trades in, or a registered adviser that advises on, securities of an issuer to which it is "connected" or "related", conflicts of interest may arise. As a result, Canadian securities laws require registered securities dealers and advisers, when they trade in or advise with respect to their own securities or securities of certain other issuers to which they, or certain other parties related to them, are "connected" or "related", to do so only in accordance with particular disclosure and other rules. These rules require dealers and advisers, prior to trading with or advising their clients, to inform them of the relevant relationships and connections with the issuer of the securities.

The Fund may be considered a "related" or "connected" issuer to the Manager when it sells Fund Units on behalf of the Fund. While the Manager does not receive a fee for selling the Fund Units, it does receive management fees for management and advisory services rendered to the Fund. See Item 2.3 – *Fees and Expenses*.

*(The following pages contain the specific Conflicts of Interest Policy referred to in Proof Funds' offering memorandums.)*



## Conflicts of Interest Policy

The purpose of this Proof Capital Inc. Conflict of Interest Policy ("**Conflict of Interest Policy**") is to protect the best interests of investors when there is an existing or potential conflict of interest. This policy is intended to supplement, but not replace, any applicable federal or provincial laws governing conflicts of interest. Each of Proof Capital Inc. ("**Proof**") and its subsidiaries emphasize integrity when dealing with investors and will deal fairly, honestly and in good faith with all investors and will address all conflicts in the best interest of investors.

### 1) Conflicts Advisory Board

Proof Capital Inc. ("**Proof**") has established a conflict advisory board ("**CAB**") whose mandate is to provide recommendations and advice to Proof, Proof Corporate Advisory Inc. ("**Proof Advisory**"), Proof Proprietary Investment Fund Inc. ("**PROP Fund**"), Proof Asset Management Inc. ("**PAM**" or the "**Manager**"), and the Proof Capital Family of Funds (the "**Fund(s)**") to address existing or potential conflicts of interest in the best interests of the investors of the particular fund and in compliance with all applicable laws and best practices. The CAB shall have the following characteristics:

- a. CAB members shall be appointed by Proof's Board of Directors. The CAB shall be made up of at least 3 members, and at all times the majority of members shall be representatives of the Manager, and at least one of the Manager's representatives must be from the Manager's compliance department. The Chair of the CAB shall be decided by the members of the CAB by a majority vote.
- b. If one of the CAB appointed members cannot be present for a meeting, they may nominate an alternate to represent them from a list of alternates which is pre-approved by a unanimous decision of the CAB members.
- c. Current CAB members and alternates are as follows:
  - i. Rhea Solis (chair)
  - ii. Cameron Reid
  - iii. Jeremy Kaliel
  - iv. Keith McLean (alternate)

### 2) Separation of Investment Committee ("**IC**") Responsibilities

The matters to be addressed by the CAB should be limited to conflict matters in accordance with its mandate. All investment related matters, including but not limited to, reviewing and discussing investment opportunities and related documents and discussing other securities related matters such as eligibility and suitability, are not to be decided by the CAB and are to be discussed and decided by the IC in accordance with its mandate. Separation of the CAB and the IC is essential as a procedural safeguard to ensure that any decision of the CAB is made by those without ancillary interests.

### 3) Reporting of Conflicts of Interest

At all times the CAB shall be immediately notified of any circumstances of which an individual has knowledge which are or may appear to others to be an actual or potential conflict of interest within the Proof structure. The process by which CAB is notified is as follows:

- a. Notification of conflicts shall be provided via email to the Chair of the CAB by the individual to which the conflict applies, or in the case of a corporate entity, by an officer or director of the corporate entity to which the conflict applies (the "**Interested Party**"). However, the applicable Interested Party only needs to seek CAB approval for matters that: (i) are not addressed by this Conflict of Interest Policy; (ii) are

outside of this Conflict of Interest Policy; or (iii) approval of the CAB is required under this Conflict of Interest Policy.

- b. For each potential conflict, the Interested Party shall provide the CAB sufficient information and all requested information required by CAB to provide measured advice on any reported matter, including (as applicable):
  - i. A completed Notice of Conflict of Interest form which set outs, among other things, the conflicted parties, the nature of the potential conflict of interest, how the potential conflict of interest is being addressed and whether approval from the CAB is being requested;
  - ii. Relevant Proof Advisory engagement agreements;
  - iii. Term sheets of the relevant fund's investment; and
  - iv. Any other relevant documentation.
- c. The CAB's decision on a matter is final and each Interested Party will give full and sufficient consideration to the CAB's recommendations where a potential conflict of interest exists, taking care to adopt recommendations the CAB believes are sufficient to ensure the conflict has been adequately addressed in the best interests of investors.
- d. If the CAB has reasonable cause to believe that an Interested Party has failed to disclose actual or potential conflicts of interest, it shall inform the individual of the basis for such belief and afford the individual an opportunity to explain the alleged failure to disclose. If, after hearing the response of the individual and making such further investigation as may be warranted in the circumstances, the CAB determines that an Interested Party has, in fact, knowingly failed to disclose an actual or potential conflict of interest, it shall take appropriate disciplinary and corrective action as it deems necessary.

#### 4) CAB Meetings

- a. Regular CAB meetings shall be endeavored to be scheduled monthly. The Chair of the CAB may call a meeting of the CAB that is not otherwise scheduled upon not less than twenty-four (24) hours' notice.
- b. A majority of the CAB members must be present at a meeting to have a quorum, and at least one of the present members must be from the Manager's compliance department. The Chair of the CAB shall act as the chair for all meetings. If all the CAB members consent, a CAB member may participate in a CAB meeting by means of telephone or other communication facilities that permit all persons participating in the meeting to hear each other. A CAB member participating in a meeting by means of telephone or other communication facilities is deemed to be present at the meeting.
- c. Every resolution submitted to a meeting of the CAB must be decided by a majority of votes cast at the meeting. In the case of an equality of votes, the chairperson does not have a casting vote – in such cases, ties shall be broken by a follow up meeting as soon as possible in which an alternate is asked to attend and vote so that a majority of votes can be achieved.
- d. Each member of the CAB shall not take part in a vote in which they are personally conflicted (or may be perceived to be conflicted) with respect to a matter that is before the CAB for approval.

#### 5) Proof Advisory Policy with Respect to Advisory or Origination Fees

Proof Advisory clients may include both public and private entities ("**Advisory Clients**"), some of which the Fund may decide to invest in. To address the potential fee conflict caused by Proof Advisory receiving fees related to a fund's investments, Proof Advisory shall seek to align its interests with the interests of investors by ensuring that unless otherwise agreed to by the CAB, the amount of fees it receives shall be consistent with industry practices. Further, unless otherwise agreed by the CAB, Proof Advisory shall receive such fees in one of the following three manners:

- a. Payment of least 50% of advisory and origination fees shall be received “in kind” in securities of the issuer, which securities will be subject to a minimum one (1) year holding period;
- b. Advisory and origination fees shall be received in the form of a carried interest that is earned after the fund receives an aggregate amount of dividends, distributions or return of capital equal to at least a 100% of invested capital; or
- c. Advisory or origination fees may only be received 100% in cash if either: (i) the cash fee is not more than 1.0% of aggregate capital raised for the Advisory Client; or (ii) Proof Advisory enters into an agreement with the Advisory Client that in the event the investment is liquidated and the fund has not received an aggregate amount of dividends, distributions or return of capital equal to at least 100% of invested capital, all fees paid to Proof Advisory by the Advisory Client shall be advanced by Proof Advisory on behalf of the Advisory Client to the fund as a return of invested capital.

If Proof Advisory receives fees in any way other than the above three manners prior to a CAB decision with respect to the same, all such fees shall be held in escrow until CAB has had the opportunity to review the potential conflict:

- a. If/when CAB is satisfied that the potential conflict has been adequately addressed, the fees shall be released to Proof Advisory; or
- b. However, if/when CAB concludes that the potential conflict of interest CANNOT be adequately addressed in the best interest of investors in the fund, the fees being held in escrow are to be returned to the Advisory Client (rather than advanced to Proof Advisory).

## 6) Proof Policy with respect to Directorships

Part of Proof’s strategy to address potential conflicts related to Directorships is to adopt the following disclosure policy: Proof shall post and maintain on its website ([www.proofcapital.ca](http://www.proofcapital.ca)) a list of all the directorships of individual directors, and officers and employees, agents and associates who have access to, or participate in formulating and making decisions on behalf of a fund or advice to be given to a fund of which a fund has invested in.

## 7) Proof Policy with respect to Self-Dealing

A potential conflict of interest could develop any time a Fund purchases a security from, or sells a security to, the PROP Fund or its officers or directors (the “**Self-Dealing Parties**”).

- a. A Fund shall not be permitted to make an investment in an issuer in which any officer or director of a Fund, Proof, the PROP Fund, or the Manager beneficially owns, either directly or indirectly, more than 10% of the outstanding shares or units of the issuer, or if all officers and directors of the aforementioned entities combined beneficially own, either directly or indirectly, more than 50% of the outstanding shares or units of the issuer.
- b. To address this potential conflict of interest, trades between a fund and a Self-Dealing Party will only be permitted if the trading price is established to be at fair market value that is validated by a third-party transaction (including a coincident equity financing by the issuer). In addition, no permitted trade between a fund and a Self-Dealing Party shall proceed without first addressing the potential trade with the CAB. The applicable fund and the applicable Self-Dealing Party will report the potential conflict to the CAB in the manner set out in Section 3. If the conflict cannot be adequately addressed, then the trade will not be permitted.
- c. Part of Proof’s strategy to address the potential conflicts related to Self-Dealing is to adopt the following disclosure policy: Proof shall post and maintain a list of all the holdings of the PROP Fund on its website ([www.proofcapital.ca](http://www.proofcapital.ca)).

## **8) Parallel Investments**

A potential conflict of interest may arise when individual directors, and officers and employees, agents and associates who have access to, or participate in formulating and making decisions on behalf of a fund or advice to be given to a fund of which a fund has invested in make a parallel investment alongside a fund if the allotment of such investments is not equitably distributed. To address this potential conflict, when a fund and one or more director, officer, employee, agent or associate is engaged in the purchase or sale of the same security, such parallel investments shall be allocated and disposed of in a fair and equitable basis (and with full consideration to the advice of the Conflict Advisory Board). All investment decisions for a fund shall be made in the best interests of investors of a fund.

## **9) Proprietary Products**

A potential conflict of interest could be created if both Proof proprietary products and non-proprietary products are sold to investors, and if the proprietary products have higher sales commissions attached to them than the non-proprietary products. To address the potential conflict, the same sales commissions shall be attached to all Proof products sold to investors, regardless of whether or not the products are proprietary or non-proprietary. In addition, the name of Proof's firm and the name of its proprietary investment products shall intentionally be made sufficiently similar.

## **10) Separation of Advisory Functions**

Units of a fund may be sold by individuals registered as a dealing representative. In the context of a proprietary fund, there is a conflict of interest between the dealing representative sales function and the advising representative advisory function. Therefore, at all times there shall be a separation of the sales and advisory functions of a fund such that the individual or individuals advising a fund shall not act as a dealing representative with respect to sales of the fund's units.

## **11) Policy for Unforeseen Conflicts of Interest**

If an unforeseen conflict is identified, the Interested Party shall seek advice from the CAB. Conflicts which cannot be adequately addressed in the best interests of investors shall not be permitted. In all cases, existing and potential conflicts and the recommendations of the CAB shall be documented and promptly reported to the Manager's Chief Compliance Officer, whose independence and authority shall be respected. In addition, not less than once annually the CAB, and the Manager's Chief Compliance Officer shall reassess Proof's conflict management framework, and any recommendations for improvement shall be implemented.

*This Policy was approved and adopted by the Board of Proof Capital Inc. June 15<sup>th</sup>, 2020.*

## PROOF ASSET MANAGEMENT INC.

### CONFLICTS OF INTEREST DISCLOSURE INFORMATION

#### 1. CONFLICTS OF INTEREST

##### General

Canadian securities laws require Proof Asset Management Inc. (“**PAM**”, “**we**”, “**us**” or “**our**”) to take reasonable steps to identify and respond to existing and reasonably foreseeable material conflicts of interest in our clients’ best interests and inform clients about them, including how the conflicts might impact clients and how we plan to address them in the best interests of our clients. This document describes the material conflicts of interest that arise or may arise in our capacity as a portfolio manager (“**PM**”) for clients receiving our investment management services (including managed account clients), in our capacity as an exempt market dealer (“**EMD**”) for clients that purchase directly through us securities of investment funds and other pooled investment vehicles created by us or other third parties and managed by us (including those described below under “*We act as an IFM and/or PM for the following funds*”) (the “**funds**”), and in our capacity as an investment fund manager (“**IFM**”) of our funds. Additionally, material conflicts of interest that arise or may arise in our capacity as IFM and PM for our funds will also be disclosed in the offering memorandum or other disclosure document for our funds.

##### What is a conflict of interest?

A conflict of interest may arise in circumstances where (i) our interests or those of our representatives and your interests as our client may be inconsistent or different, (ii) we or our representatives may be influenced to put our or their interests ahead of yours, or (iii) monetary or non-monetary benefits available to us, or potential negative consequences for us, may compromise the trust that you have in us.

##### How do we address conflicts of interest?

We and our representatives always seek to resolve all material conflicts of interest in your best interest. Where it is determined that we cannot address a material conflict of interest in your best interest, we and our representatives will avoid that conflict.

We have adopted policies and procedures to assist us in identifying and controlling any conflicts of interest that we and our representatives may face.

##### Material conflicts of interest

A description of the material conflicts of interest that we have identified is set out below.

##### **Proprietary Products**

As an EMD and a PM, the investment opportunities currently available through us are limited to securities of our funds (referred to as “**proprietary products**”). Because of our role in managing the business and affairs of the funds, the funds are considered to be related and/or connected issuers to us. Additional information about these funds is available in each fund’s offering memorandum or other disclosure document, copies of which are available from us upon request.

As at the date of this document, we act as an investment fund manager and/or portfolio advisor to the following proprietary funds:

Proof Capital Alternative Income Fund  
Proof Capital Alternative Growth Fund  
Proof Capital Special Situations Fund

Proof Capital Balanced Growth & Income Fund  
Proof Medical Receivables Yield Fund

Our roles in managing, advising and selling units of our funds will inevitably give rise to certain conflicts between our interests and yours. These conflicts of interest could mean that we are providing you access to proprietary products because we receive compensation related to those products. In addition, our relationship with these products may cause us to follow a 'know your product' process that is less robust than it otherwise would be for non-proprietary products. Our review of these products may also be conducted with a less independent view than would be done by an arm's length party. Further, because we only offer proprietary products, any suitability determination conducted by us and our representatives of our proprietary products may not consider the larger market of non-proprietary products or whether those non-proprietary products would be better, worse, or equal in meeting your investment needs and objectives.

Where PAM provides you with services related to the purchase or sale of securities of our funds we will only engage in these types of transactions where they are permitted under applicable securities laws and by applicable securities regulatory authorities, and where we believe they are in your best interests.

We manage these conflicts by ensuring that we do not receive any fees or other compensation for our services as an exempt market dealer and our representatives do not receive any sales-based compensation or commissions or referral fees related to the sale of proprietary products. In addition, unless you are a "permitted client" and have requested that we not make suitability determinations for your account, we will conduct a suitability assessment to ensure that each investment is suitable for you and in your best interests, having regard to your financial and other circumstances. We also carry out periodic assessments of the products we offer, including their performance, to ensure that they remain appropriate for the range of our clients and prospective clients. In most cases, the relationship or connection to our funds will be obvious to you because the names of the funds will be sufficiently similar to our name. For example, most of our funds will include the word "Proof" as part of their name, or "Proof" will be included in the fund's disclosure documents. If we believe that the name of any fund or any other issuer is not similar enough to convey the funds' or other issuer's relationship to us, we will provide you with specific disclosure regarding that relationship at the appropriate time. Despite the steps we take to manage these conflicts, you may wish to get independent advice from a trusted professional before you consider investing in the proprietary products we offer.

***Personal Trading Activities and Code of Conduct***

Employee personal trading can create a conflict of interest because employees with knowledge of our trading decisions could use that information for their own benefit. We have adopted a policy to restrict and monitor personal trading by our directors, officers and employees/contractors in order to ensure that there is no conflict between such personal trading and the interests of our funds and our clients. Each of our directors, officers, and employees/contractors puts the interests of our clients first, ahead of their own personal self-interests. In particular, any individual who has, or is able to obtain access to, non-public information concerning the portfolio holdings, the trading activities or the ongoing investment programs of our clients, is prohibited from using such information for his or her direct or indirect personal benefit or in a manner which would not be in the best interests of our clients. These individuals also must not use their position to obtain special treatment or investment opportunities that are not generally available to our clients or the public. These individuals are only allowed to make a personal trade if it falls within our Personal Trading Policy or if our Chief Compliance Officer has determined that such a trade will not conflict with the best interests of our clients. We encourage our directors, officers, and employees/contractors to invest primarily through our funds, thereby reducing the amount of their personal investments and, consequently, reducing the likelihood of a conflict of interest arising between us and our clients.

Additionally, we have a Code of Conduct which sets out certain expected standards of conduct of our directors, officers and employees/contractors and includes restrictions and controls on outside activities and personal trading of our directors, officers and employees/contractors. The Code of Conduct is designed to ensure that our directors, officers and employees/contractors act in accordance with applicable Canadian securities laws and other applicable laws, that they act in the best interests of our clients, that they avoid

actual or potential conflicts of interest, and that they do not engage in personal securities transactions that are prohibited by law, such as insider trading, or that negatively impact our clients.

### ***Referral Arrangements***

PAM may enter into referral arrangements from time to time whereby we pay or provide a fee or other benefit for the referral of a client to us or to one of the funds we manage, or whereby we receive a fee or other benefit for the referral of a client to another entity. Paid referral arrangements are inherent conflicts of interest and must be addressed in the best interest of the client. Before we refer a client, in exchange for a referral fee, to another entity, we will determine whether making the referral is in the client's best interest. In making that determination, we will consider the benefits to the client of making the particular referral over alternatives or at all. In making a referral, we are guided only by the client's best interests.

The details of these referral arrangements, including the parties to the referral arrangement, the manner in which the referral fee for referral services is calculated and the party to whom it is paid, will be provided to you in writing when required. All services resulting from a referral arrangement relating to your account(s) which require registration under applicable securities legislation will be provided by the registrant receiving the referral.

We also have policies and procedures that are designed to ensure that fees and other benefits received or paid or provided, as applicable, in connection with referral arrangements are appropriate and do not provide inappropriate incentives, and that any referral by us is in the client's best interest. We undertake periodic reviews of referral arrangements. Clients are not obligated to purchase any product or service in connection with a referral.

### ***Principal Transaction and Cross Trading Securities***

Generally, cross trading between investment funds or between accounts is not permissible. However, cross trading between investment funds or between accounts managed by PAM is only permitted under the specific conditions enumerated below. Cross trades must be pre-approved by the Compliance Department. These conditions are directed at prohibiting any transactions that may appear to establish artificial prices. Any crossing of trades to control or support a security price is strictly prohibited.

The crossing of trades will not be permitted except in accordance with the following conditions:

- (a) The crossing of trades can only be completed if there is a beneficial change in ownership i.e. one client to another client. Trades that do not constitute either a change in beneficial or economic ownership must not take place on a market as they are considered manipulative and deceptive methods of trading.
- (b) The crossing of trades meets the investment objectives and restrictions of the purchasing account.
- (c) The crossing of trades may only be completed if the security trades on an exchange through a registered dealer. Each local exchange has its own rules and regulations for cross trades.

Inter-fund trades, which involve trades being made directly with the accounts, do not involve a third party in the execution of trades and are therefore prohibited. Cross trades are permitted mainly because "cross" trades are executed using a registered dealer.

The prohibition against inter-fund trades is found in securities legislation and regulations. It is important to note that inter-fund trades are exempt from these rules under specific conditions pursuant to National Instrument 81-107 – Independent Review Committee for Investment Funds ("**NI 81-107**"). The PM of an investment fund may purchase a security of any issuer from, or sell a security of any issuer to, another investment fund managed by the same manager or an affiliate of the manager, if at the time of the transaction, the Independent Review Committee has approved the transaction under subsection 5.2(2) of NI 81-107 and all other minimum conditions set out in NI 81-107, including section 6.1 are met.

We do not expect that the PAM funds regulated under NI 81-107 undertaking in such exemptions in accordance with NI 81-107 and all other applicable rules. However, if a strong case to effect inter-fund trades is presented, the PAM funds regulated under NI 81-107 will undertake in these exemptions in accordance with NI 81-107 and all other applicable rules. PAM has obtained regulatory exemptive relief to permit inter-fund trading in respect of its prospectus-exempt funds and managed accounts, subject to certain conditions.

### ***Our Trading and Brokerage Practices***

The decisions we make with respect to the execution of portfolio transactions for accounts we manage, including the selection of execution venues, the broker-dealer and the negotiation, where applicable, of commissions or spreads, can give rise to conflicts of interests.

For additional information on how we manage these conflicts, see the section called “Our Trading and Brokerage Practices” in the Relationship Disclosure Information document.

### ***Soft Dollar Arrangements***

Soft dollar arrangements occur when brokers have agreed to provide other services (relating to research and trade execution) at no cost to PAM in exchange for brokerage business from our managed accounts clients and our funds. Although the brokers involved in soft dollar arrangements do not necessarily charge the lowest brokerage commissions, we will nonetheless enter into such arrangements when it is of the view that such brokers provide best execution and/or the value of the research and other services exceeds any incremental commission costs.

We do not currently have any soft dollar arrangements with any brokers. If and when we participate in soft dollar arrangements, it will only be for the purposes of receiving acceptable research or brokerage services for the benefit of our clients. In other words, advising representatives may direct order flow to brokers in exchange for research or brokerage services which is both acceptable as defined by us and benefits only our clients.

Executing brokers that provide “in-house” proprietary research will not provide us with an estimate of the cost of the research, statistical and other similar services. We will make a good faith determination that the amount of the commission paid is reasonable in relation to the value of the brokerage and research services provided by the broker and that our clients will have received fair and reasonable benefit from such. Third party research is generally also available on a subscription basis, the value of which will be used to approximate the value of research and other similar services received from third parties through commission sharing arrangements with executing brokers. We will make all required disclosures to clients.

### ***Acceptable Research***

Research is deemed acceptable if it is used in a manner that provides material assistance to the advising representative in the investment decision-making process and not in the management of PAM.

Examples of research acceptable under soft dollar arrangements, assuming proper use, include: advice as to the value of securities and the advisability of effecting transactions in securities; and analyses and reports concerning securities, portfolio strategy or performance, issuers, industries or economic or political factors and trends.

Such research may be received in various mediums including conference calls, meetings as well as oral and written research reports. Research received will supplement PAM’s own research and analysis in arriving at investment decisions. A list of brokers that provided research to PAM will be available upon request.

### ***Allocation of Investment Opportunities***

We provide investment management services to various funds and other clients. The size and mandate of

the various funds and other accounts managed by us differ and the portfolios are not identical. As a consequence, we may purchase or sell a security for one account prior to other accounts. This could occur, for example, as a result of the specific investment objectives of the account, different cash resources arising from contributions or withdrawals, or the purchase of a small position to assess the overall investment desirability of a security. If the availability of any particular security is limited and that security is appropriate for the investment objective of one or more other accounts, any purchase of that security will be allocated on an equitable basis in accordance with our fair allocation policy.

### ***Fair Allocation Policy***

***Purpose*** – The basic purpose of PAM's policy regarding allocation of investment opportunities (the "Policy") is to ensure fair treatment of all clients of PAM in situations where two or more client accounts participate simultaneously in a buy or sell order involving the same security. The Policy is premised on the view that allocating on a pro rata basis among applicable client accounts based upon target weighting as determined by the advising representative at the time of order entry will promote fair and reasonable treatment of all clients. However, the Policy recognizes that no rigid formula will always lead to a fair and a reasonable result, and that some flexibility is required to adjust to specific circumstances, as appropriate. Accordingly, allocation on a basis other than strictly pro rata based on order size is permitted in certain circumstances where it can be established that such allocation is fair and reasonable. The fundamental objective of the Policy is to be fair and reasonable to all clients based upon client investment objectives and policies and to avoid the appearance of favoritism or discrimination among clients.

***General Rule*** – In placing orders, advising representatives must specify a pre-determined number of shares or number of bonds or a target weight for each identified account, or group of accounts, at the time the order is placed. Except as provided in the following paragraphs, the executed portion of a transaction through a specific broker or dealer on the same trading day, combining two or more accounts regardless of the advising representative involved, will be allocated by the appropriate trading desk personnel on a pro rata basis (to the nearest round trading lot when possible, 100 or 1000 shares) or based on a target weighting provided by the advising representative. Each account involved would receive a percentage of the executed portion of the order (including price and commission) based upon each account's percentage of the entire order. This procedure will apply to all accounts which are participating in the execution under the same trading circumstances (price limits, approximate time of entry, etc.).

***Exceptions to the General Rule*** – An exception may be made to the General Rule if, for example, an order is unreasonable as measured against the particular account's asset size and target weighting for the security in question. The reasonableness of the target weighting will be assessed by a review of the investment guidelines of the particular account. Any unresolved issues relating to the application of the Policy in specific circumstances will be determined in accordance with the trade allocation dispute resolution mechanism (described below).

***Initial Public Offering (IPO) Allocation*** – IPOs may be particularly contentious in that demand often far exceeds supply. Accordingly, allocation based on order size may be inappropriate in a proportionately greater number of circumstances involving IPOs as opposed to secondary market transactions. Such allocations of IPOs may, if necessary, be determined in accordance with the trade allocation dispute resolution mechanism (described below). This is applicable for both filled and partially filled orders.

***Trade Allocation Dispute Resolution Mechanism*** – in the event (i) that pro rata allocation is inappropriate; (ii) that a proposed allocation is disputed after the application of the above rules; or (iii) allocation of an IPO, where appropriate, and the participating advising representatives are unable to determine an allocation that is clearly fair and reasonable to all the clients involved, the following procedures shall apply. If a consensus cannot be reached, an allocation will be determined by our Compliance Department (who are not involved in buying or selling the security in question), based on an evaluation of factors, including:

- (a) The potential investment needs of the participating clients;
- (b) The appropriateness of the investment to a portfolio's style, performance time horizons and the client's risk objectives;

- (c) Whether the investment fits more closely to the client account's industry or investment specialization or region of investment;
- (d) The significance of the order in relation to the size of the account;
- (e) Existing levels of portfolio ownership in the intended investment and in similar types of companies or fixed income securities; and
- (f) The origin of the idea, future coverage from a research standpoint and broker relationship.

### ***Expense Allocation***

The charging and allocation of expenses among our funds creates a potential conflict of interest because we could inappropriately charge expenses to benefit PAM over our funds.

PAM manages this conflict by allocating expenses for our funds in a fair and reasonable manner based on the benefit received by each fund. Employees, directors and officers/contractors observe high standards and care in tracking, allocating and coding of invoices and activities with respect to potential expenses in accordance with our Fund Expenses and Allocation Policy.

Allocation of fund expenses is generally determined as follows:

- (a) Expenses directly attributed to the funds are allocated to each account appropriately;
- (b) Only appropriate costs and expenses are charged to the funds;
- (c) Costs and expenses that are not appropriate or are prohibited are not charged to the funds;
- (d) Expenses, where the benefit is shared amongst PAM as IFM and the funds, are allocated reasonably and fairly; and
- (e) Expenses that relate to more than one fund account are allocated fairly amongst the applicable funds.

### ***Fair Valuation of Assets***

When we earn fees based on assets under management, such as with managed accounts or the investment funds we manage, there is a potential conflict in valuing the assets held in the portfolios because a higher value results in a higher fee paid to us. Overstating the value of the assets can also create improved performance.

We address this conflict through compliance with our fair valuation policy. In the absence of readily available or reliable market quotations, fair value situations arise where estimated values are used in good faith when valuing our managed accounts' funds. PAM engages its custodian, and if applicable, our funds' fund accounting service provider, and the Portfolio Management Team monitor and escalate any potential fair value situations. If the situation is deemed to be a potential fair value situation, the custodian or the Portfolio Management Team will gather all relevant information and present the facts to the Investment Committee who will make a decision with regards to the potential fair value situation.

### ***Pricing and Account Errors***

We make reasonable efforts to keep trade errors to a minimum and ensure fairness to clients with respect to protection from errors made within their account. A trade error is an inadvertent error in the placement, execution or settlement of a transaction. A trade error is not an intentional or reckless act of misconduct. Although errors or issues are an inevitable by-product of the operational process, PAM strives to establish controls and processes that are designed to reduce the possibility of their occurrence.

All accounts managed by PAM follow a policy to ensure that in the event of an error, the account is made whole and that such error corrections and any necessary reimbursements to the accounts are made accurately and on a timely basis. Any errors resulting in a gain are kept by the accounts.

### ***Proxy Voting***

A potential for conflict arises when PAM, in its capacity as IFM and PM, has the opportunity to vote a proxy in a manner that is in its own interest and not in the best interest of clients.

The proxies associated with securities held by the client or a PAM fund will be voted by the advising representative, or delegate, in the best interests of the client. The advising representative, or delegate, considers the “best interests” of client to mean their best long-term economic interests. The advising representative, or delegate, maintains policies and procedures that are designed to be guidelines for the voting of proxies; however, each vote is ultimately cast on a case-by-case basis, taking into consideration the relevant facts and circumstances at the time of the vote:

PAM’s proxy voting policies and procedures set out various considerations including that:

- (a) The advising representative, or delegate, will generally vote with management on routine matters related to the operation of an issuer that are not expected to have a significant economic impact on the issuer and/or its shareholders;
- (b) The advising representative, or delegate, will review and analyze on a case-by-case, non-routine proposals that are more likely to affect the structure and operation of the issuer and to have a greater impact on the value of the investment;
- (c) The advising representative, or delegate, may abstain from voting a proxy if it concludes that (i) the effect on the clients’ economic interests or the value of the portfolio holding is indeterminable or insignificant, or (ii) the cost of voting is disproportionate to the economic impact the vote would have on the portfolio holdings, or (iii) if there is insufficient information to make an informed decision; and
- (d) Any material conflicts that may arise will be resolved in the best interests of the clients and potential procedures to deal with any conflict are identified.

### ***Gifts and Business Entertainment***

The receipt of gifts or entertainment from business partners may result in a perceived conflict as it gives rise to the perception that our representatives will favour such business partners when making investment decisions. To manage this perceived conflict of interest, we have adopted a gifts and entertainment policies as part of our Code of Conduct, which prohibits our representatives from accepting gifts or entertainment beyond what we consider consistent with reasonable business practice and applicable laws. We set maximum thresholds for such permitted gifts and entertainment so that there cannot be a perception that the gifts or entertainment will influence decision-making.

### ***Outside Activities***

PAM’s directors, officers and employees/contractors who are registrants are required to inform PAM’s Compliance Department of any outside activities. The outside activities are reviewed to ensure they will not interfere with the duties and responsibilities of the directors, officers and employees/contractors as a

registrant. PAM is aware of the potential for conflicts of interest and will adopt policies and procedures if required to minimize the potential for conflicts of interest that may result from the activity. See also above under “*Personal Trading Activities and Code of Conduct*”.

## **2. MORE INFORMATION**

Canada has comprehensive and extensive securities regulatory rules and regulations, many of which are directed at protecting client and investor interests, including dealing with conflicts of interest. We recommend that you refer to the websites and publications of the provincial securities commissions through the Canadian Securities Administrators (CSA) for more information on how Canadian securities regulatory rules and regulations address conflicts of interest in order to safeguard the investing public.

We document our core values and standards, including general standards for how we deal with conflicts of interest in our internal policies and procedures. You should also refer to our website at [www.proofcapital.ca](http://www.proofcapital.ca) for further information.

This document is updated frequently, and clients should refer to the most recently dated Conflicts of Interest Disclosure Information. The most recent version may be obtained on our website at [www.proofcapital.ca](http://www.proofcapital.ca) or by emailing us at [info@proofcapital.com](mailto:info@proofcapital.com).