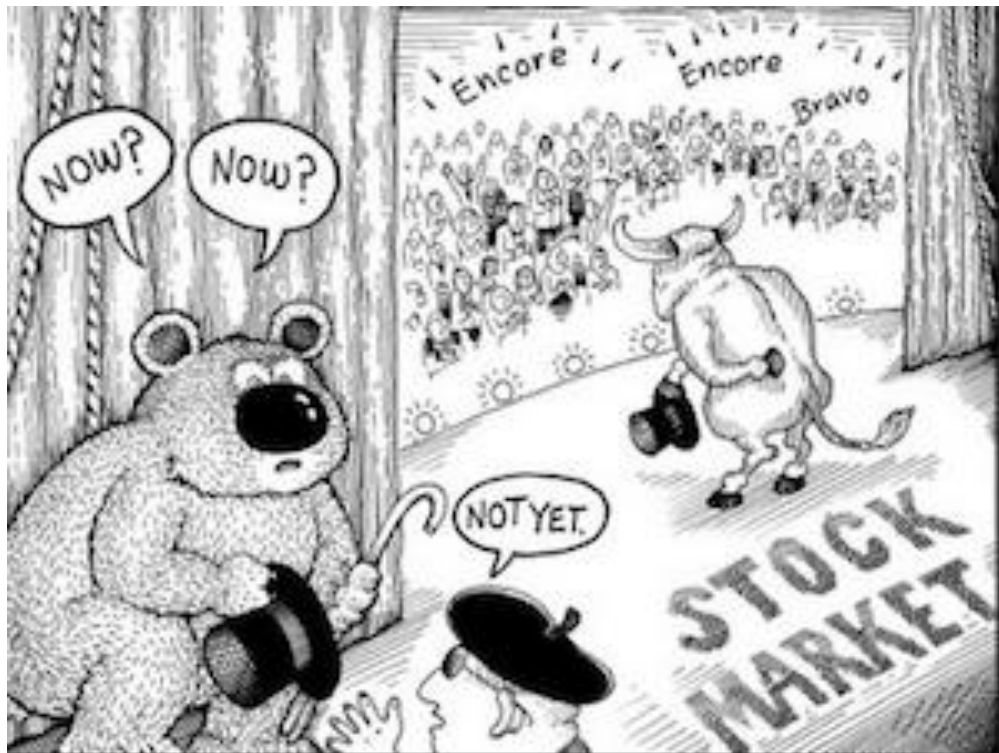


Reasons to be Optimistic on Canadian Venture Stocks

What is Recent Investor Sentiment Implying for Equity Markets?

Sentiment indicators are inherently among the most accurate and powerful indicators for measuring the direction of the equity market. Extreme sentiment readings, by their very nature, are usually reliable contrarian indicators. There are specific levels that should trigger investor action. For the indicators below, we have selected some levels which have historically had a very high success rate of anticipating positive market movements.

The following are a selection of charts reflecting current investor sentiment which we have recently noted.

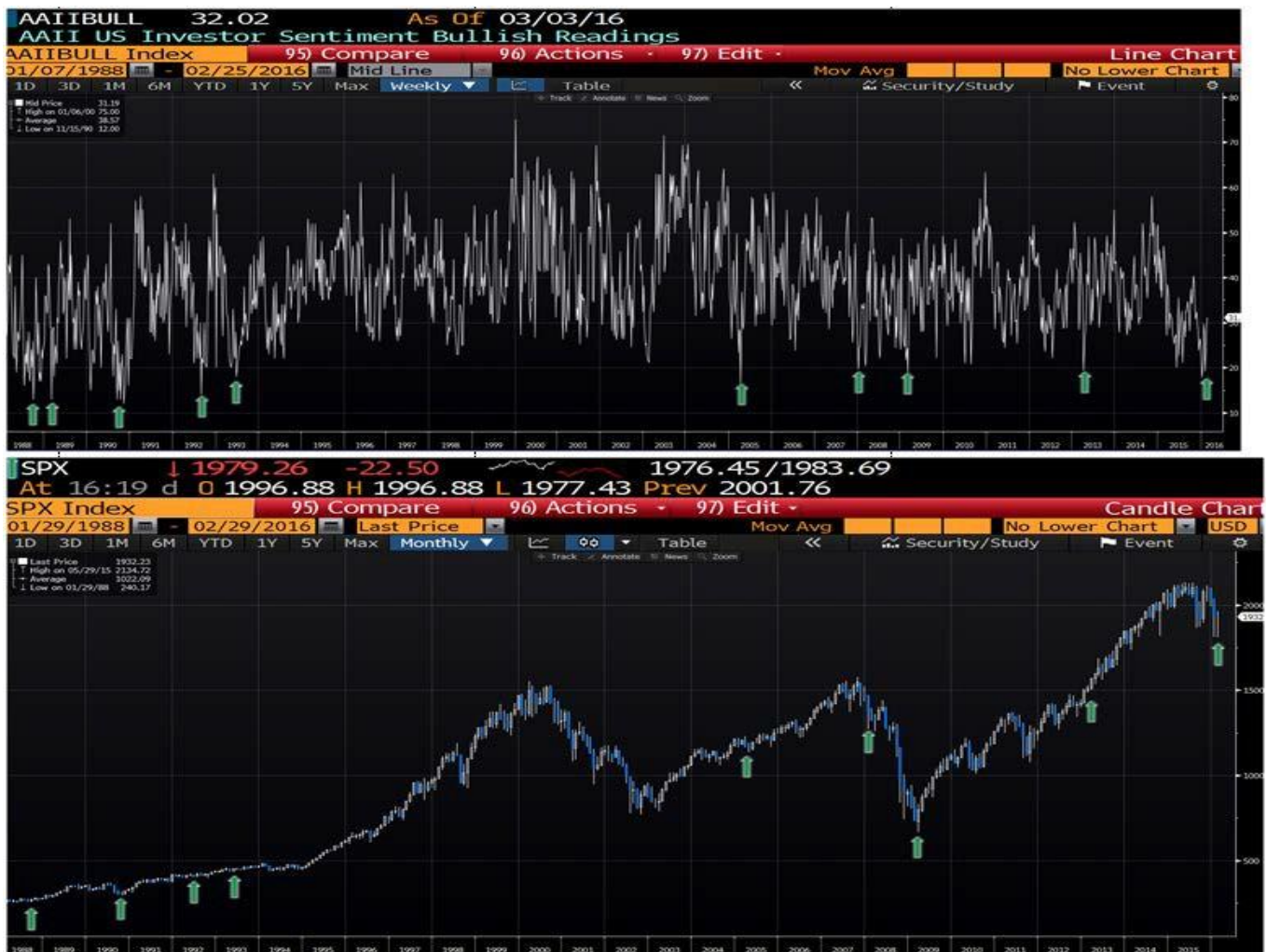


AAII U.S. Investor Sentiment Bullish Reading

The American Association of Individual Investors weekly survey measures the percentage of respondents that are bullish towards the stock market over the next 6 months.

Observations

- January 2016 low was the lowest reading since 2005, even lower than at any point during the Global Financial Crisis
- When bullish sentiment fell below 20%, subsequent one year returns for the S&P 500 Index were positive in 9 of 10 previous occasions (except January 2008 during Global Financial Crisis)
- Average subsequent one year return: 15.5%



U.S. Active Managers Stock Exposure

Observations

- Readings below 60% are highly correlated with major market lows for the S&P
- In the few occasions where this indicator is below 60, higher equity prices for the S&P Index followed

Raymond James

Investment Strategy

Chart 2

Active Managers Give Up On Stocks

They are carrying low exposure, and there is a lot of group-think among them

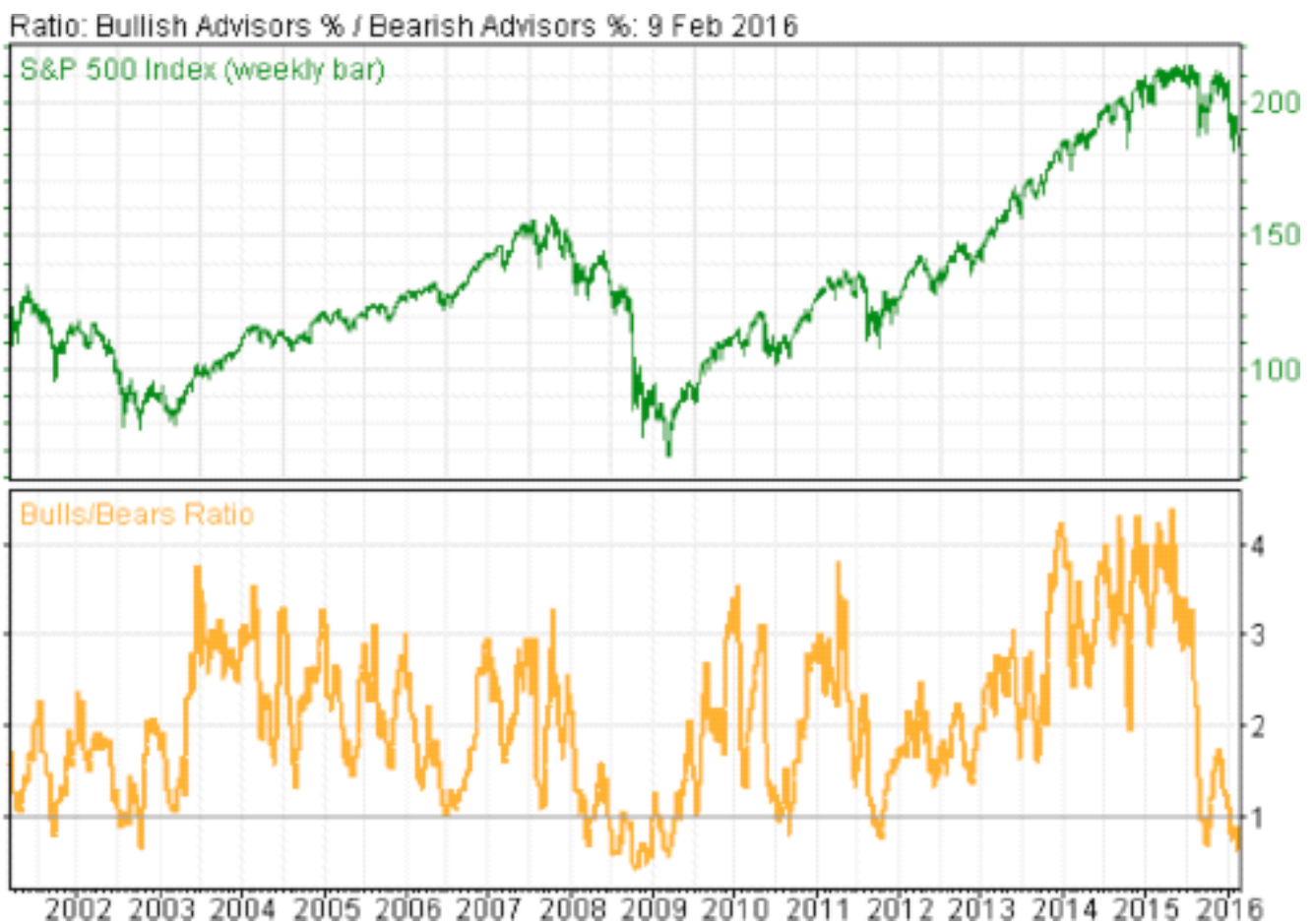


Bullish/Bearish Advisor Ratio

This chart is produced by Investors Intelligence which shows the ratio of bull to bears.

Observations

- When the bull/bear ratio falls below one (when there are more bears than bulls) it is highly correlated with major market lows for the S&P
- The S&P has moved significantly higher after **every** period where there were more bears than bulls



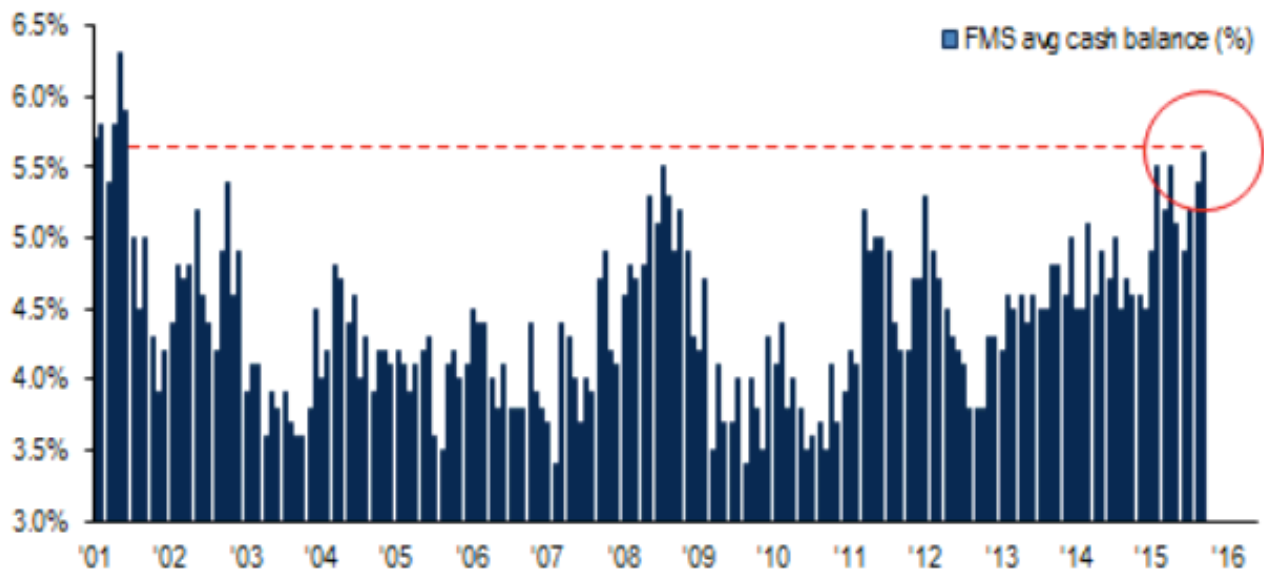
Global Fund Manager's Average Cash Balance

This chart shows the average cash balance held by global fund managers based on a Merrill Lynch survey.

Observations

- Global equity managers currently hold the highest cash levels since 2001
- Cash levels are higher than during the Global Financial Crisis implying investment managers are both cautious and have buying power
- Increased cash levels are a result of selling which drives down share prices in aggregate
- Previous occasions where cash levels were at similar levels correlated with major lows for equity markets
- The high level of cash gives us confidence in the potential momentum of the markets as it starts to get deployed

Exhibit 3: Global FMS average cash balance (%)



Source: BofA Merrill Lynch Global Fund Manager Survey

CBOE Put/Call Ratio

The Put/Call Ratio is the total volume of puts traded divided by the volume of calls. An increase in the number of puts traded signals that investors are speculating that the market will move lower.

Observations

- Green arrows show occasions where the Put/Call Ratio rose above 1.1
- The S&P moved higher over the following 12 months in 6 of 8 previous occasions where the Put/Call Ratio went above 1.1 with a median return of 9.9%



Percentage of NYSE Stocks Closing Above 200 Day Moving Average

Observations

- Green arrows show occasions where fewer than 20% of NYSE stocks are above their 200 day moving average and the corresponding point for the S&P
- The occasions where less than 20% of stocks are above their 200 day moving average is highly correlated with major lows for the S&P on the majority of occasions



What is the Sentiment for Canadian Small Cap Equities?

Those that do not follow the junior space as closely as we do may not appreciate the recent sentiment for Canadian small cap equities. There are no specific sentiment indicators similar to those highlighted above for the Canadian junior markets. However, it is clear that a strong case can be made that sentiment for this space is much worse and very likely near a negative extreme. We believe the following statistics for the TSX Venture Index clearly reflects this.

| TSX Venture Exchange Statistics | | | | | | |
|---------------------------------|-------------|---------------|--------------|------------------|-------------|--------------------|
| | # Listings | Mkt Cap (\$b) | # Financings | Financings (\$m) | Volume (b) | Value traded (\$b) |
| Jan. '11 | 2,158 | 72 | 281 | 857.0 | 8.2 | 5.2 |
| Jan. '16 | 1,773 | 22 | 90 | 85.2 | 1.9 | 0.4 |
| Change | -18% | -69% | -68% | -90% | -77% | -92% |

RECENT MARKET ACTIVITY

This sentiment data all point to stronger equity markets in 2016. We believe the recent correction in equity markets is healthy and provides investors with an excellent entry point offering more attractive risk/reward than other asset classes. It is unusual for the Canadian junior markets to have diverged for so long from the broader equity markets. The recent market action has been very encouraging. As of February 28, the TSXV is 15% above its all-time low it hit in January. In fact, the TSXV is one of the top performing equity indices worldwide in 2016 as noted in the following chart.

Global Indices: Weekly Performance

| Major Indices | Close | Weekly % | QTD % | YTD % |
|---------------------------|--------|----------|-------|-------|
| Canada | | | | |
| S&P/TSX Venture Composite | 538 | 1.4 | 2.4 | 2.4 |
| S&P/TSX Small Cap | 483 | 0.6 | -0.6 | -0.6 |
| S&P/TSX Mid Cap | 813 | 0.2 | -1.6 | -1.6 |
| S&P TSX | 12,798 | -0.1 | -1.6 | -1.6 |
| S&P/TSX 60 | 752 | -0.2 | -1.6 | -1.6 |
| United States | | | | |
| PHLX Semiconductor | 625 | 3.2 | -5.9 | -5.9 |
| S&P 600 | 637 | 2.8 | -5.1 | -5.1 |
| Russell 2000 | 1,097 | 2.7 | -8.7 | -8.7 |
| S&P 400 | 1,340 | 2.6 | -4.2 | -4.2 |
| NASDAQ Composite | 4,500 | 1.9 | -8.3 | -8.3 |
| Dow Jones Transportation | 7,405 | 1.6 | -1.4 | -1.4 |
| S&P 500 | 1,948 | 1.6 | -4.7 | -4.7 |
| Dow Jones Industrials | 16,640 | 1.5 | -4.5 | -4.5 |
| S&P 100 | 867 | 1.1 | -4.9 | -4.9 |
| Global | | | | |
| Russia RTS | 757 | 4.3 | 0.1 | 0.1 |
| France CAC-40 | 4,315 | 2.2 | -7.0 | -7.0 |
| STOXX 50 | 2,785 | 1.7 | -10.2 | -10.2 |
| STOXX Europe 600 | 332 | 1.6 | -9.4 | -9.4 |
| Nikkei 225 | 16,188 | 1.4 | -14.9 | -14.9 |
| Germany DAX | 9,513 | 1.3 | -11.4 | -11.4 |
| Hong Seng | 15,364 | 0.4 | -11.6 | -11.6 |
| Mexico IPC | 43,473 | 0.2 | 1.2 | 1.2 |
| Korea KOSPI Composite | 1,920 | 0.2 | -2.1 | -2.1 |
| Brazil Bovespa | 41,593 | 0.1 | -4.1 | -4.1 |
| MSCI Emerging Markets | 30.1 | -0.6 | -6.6 | -6.6 |
| ASX All Ordinaries | 4,345 | -1.3 | -7.5 | -7.5 |
| India SENSEX | 23,154 | -2.3 | -11.3 | -11.3 |
| China Shanghai Composite | 2,767 | -3.2 | -21.8 | -21.8 |

Source: FactSet

What Does This Imply for Canadian Small Cap Equities?

Many of our positions have experienced a rebound in recent weeks from the January lows. The three private placements in which we have participated in 2016 have resulted in positive returns of 80%, 15% and 50% in the short period since purchase. The following chart shows the previous cycles of the Canadian junior market. We are seeing a positive turn in the TSXV, with a massive amount of upside as the bull cycle unfolds.



Return information and months is shown for the TSX Venture Exchange and predecessor exchanges (Vancouver Stock Exchange from Dec 28/84 to Nov 28/99 and Canadian Venture Exchange from Nov 29/99 until renamed on Dec 1/01). Manager Track Record is shown for AlphaNorth Partners Fund Class A net of fees from Dec 2008 to Mar 2011 and for an institutional small cap pooled fund from Sep 1998 to July 2007 gross of fees.

THE OPPORTUNITY

Investors can participate in the resurgence of the Canadian junior markets with AlphaNorth funds which are presently well positioned to capitalize on the emerging strength in small caps. Investors can participate alongside AlphaNorth and its partners with three funds.

AlphaNorth Partners Fund (AAM100/200) for accredited investors is a long biased small cap hedge fund focusing on Canadian equities. This Fund has a strong eight year track record relative to its benchmark (TSX Venture Index) and peers since inception in 2007.

AlphaNorth Growth Fund (ANF010/011) employs a similar strategy as the AlphaNorth Partners Fund but with a focus on larger companies which we classify as mid cap (\$100m to \$1b market cap). The fund is a mutual fund which employs a long only strategy across a diversified number of sectors.

AlphaNorth Resource Fund (ANF020/021) employs the same strategy as the AlphaNorth Growth Fund but with a focus on only the resource sectors.

We are optimistic that we have seen the worst for the Canadian junior markets. Seize the opportunity. The maximum gains with the lowest risk will be made by those who invest early.

Steven Palmer, CFA
President and CEO
AlphaNorth Asset Management
416 483 4448

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