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IN THE MATTER OF

ALPHANORTH ASSET MANAGEMENT AND STEVEN DOUGLAS PALMER

SETTLEMENT AGREEMENT

PART I - INTRODUCTION

A. Regulatory Message

1. Compliance with Ontario securities laws is critical for all investment fund managers to ensure robust protection to investors from unfair or improper practices and to foster fair and efficient capital markets and confidence in capital markets. Specifically, rules providing for shareholder approval and conflict mitigation are fundamental to fair markets and investor protection. Fund managers must ensure full compliance with these rules before instituting changes to fees, including by referring potential conflicts to the Independent Review Committee (**IRC**). More practically, responsible management of retail investment funds requires adequate financial resources for compliance programs and compliance staff, and internal and external professional advice where necessary.

2. In this matter, AlphaNorth Asset Management (**AlphaNorth**) and Steven Douglas Palmer (**Palmer**), AlphaNorth's Chief Executive Officer (**CEO**) and ultimate designated person (**UDP**), failed in their obligations to ensure changes to fee structures of mutual funds were undertaken properly and to have adequate internal controls and compliance systems.

B. Overview

3. As detailed below, between June 2016 and April 2017 in the case of AlphaNorth Growth Fund (the **Growth Fund**), and between June 2016 and March 2017 in the case of AlphaNorth Resource Fund (the **Resource Fund**) (together, the **Funds**) (respectively, the

Material Time), AlphaNorth implemented certain changes to set a lower High-Water Mark (as defined below) in respect of the performance fee to be paid to AlphaNorth by:

(i) the Growth Fund in respect of series A shares of the Growth Fund (the **Growth Fund Series A Shares**) acquired after June 1, 2016; and

(ii) the Resource Fund in respect of the series B shares of the Resource Fund (the **Resource Fund Series B Shares**).

4. In setting the lower High-Water Mark in respect of the performance fee payable by both Funds, AlphaNorth did not complete the necessary regulatory steps. AlphaNorth should have but did not refer these proposed changes to the IRC of the Funds or provide timely disclosures. In addition, AlphaNorth should have brought the lower High-Water Marks to meetings of holders of the Growth Fund Series A Shares (**Growth Fund Series A Shareholders**) and Resource Fund Series B Shares (**Resource Fund Series B Shareholders**) to allow the shareholders to consider whether to approve these changes. As a result, during the Material Time, AlphaNorth charged and collected performance fees that it was not eligible to receive.

5. Consequently, AlphaNorth failed to meet the prescribed standard of care under paragraph 116(b) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the **Act**), which requires an investment fund manager (**IFM**) to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. AlphaNorth also failed to comply with NI 81-102,[1] NI 81-106[2] and NI 81-107.[3]

[1] National Instrument 81-102 *Investment Funds* (**NI 81-102**)
[2] National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**)
[3] National Instrument 81-107 *Independent Review Committee for Investment Funds* (**NI 81-107**)

6. In addition, AlphaNorth also failed to maintain adequate internal controls and compliance systems sufficient to provide reasonable assurance that it and each individual acting on its behalf complied with securities legislation, and to manage the risks associated with its business in accordance with prudent business practices, contrary to NI 31-103.[4]

7. Palmer authorized and permitted the non-compliance engaged in by AlphaNorth, and is deemed by section 129.2 of the Act to have not complied with Ontario securities law. He also failed to meet his obligations as AlphaNorth's UDP.

8. The Growth Fund, in respect of Growth Fund Series A Shares, was improperly charged, in the aggregate, approximately $22,735 (inclusive of HST), and the Resource Fund, in respect of Resource Fund Series B Shares was improperly charged, in the aggregate, approximately $42,839 (inclusive of HST) because of the failures identified above. In total, the amount charged inappropriately was $65,574 (inclusive of HST). While investors and the Funds have been made whole by AlphaNorth, this settlement provides an important specific and general deterrent message and protects the public interest.

C. Settlement Hearing

9. The Commission will issue a Notice of Hearing to announce that it will hold a hearing to consider whether, pursuant to sections 127 and 127.1 of the Act, it is in the public interest for the Commission to make certain orders in respect of AlphaNorth and Palmer (collectively, the Respondents).

PART II - JOINT SETTLEMENT RECOMMENDATION

10. Staff of the Commission recommend settlement of the proceeding (the **Proceeding**) against the Respondents in respect of their conduct to be commenced by the Notice of Hearing, in accordance with the terms and conditions set out in this settlement agreement (the **Settlement Agreement**). The Respondents consent to the making of an order (the **Order**),

[4] National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**)

in the form attached as Schedule A to the Settlement Agreement, based on the facts set out herein.

11. For the purposes of the Proceeding, and any other regulatory proceeding commenced by a securities regulatory authority, the Respondents agree with the facts set out in Part III and the conclusions in Part V of this Settlement Agreement.

PART III - AGREED FACTS

A. The Respondents

12. AlphaNorth is a general partnership formed under the laws of the Province of Ontario on August 16, 2007, with its head office in Toronto, Ontario. It is registered with the Commission as an IFM, portfolio manager and exempt market dealer. The Commission is AlphaNorth's principal regulator.

13. Palmer is a founding partner of AlphaNorth and the President and CEO of AlphaNorth, and is registered with the Commission as AlphaNorth's UDP among other categories. He is also a director of the Mutual Fund Corporation (defined below).

14. As at June 30, 2017 (close to the Material Time), the assets under management (**AUM**) for the Growth Fund and the Resource Fund were $2,696,522 and $2,887,538, respectively. As at June 30, 2018, the Growth Fund and the Resource Fund had AUM of $3,083,652 and $1,721,126, respectively.

15. AlphaNorth is the IFM and the portfolio manager of the Funds.

B. The Funds

16. The Funds are each a class of shares of AlphaNorth Mutual Funds Limited (the **Mutual Fund Corporation**), incorporated under the laws of Ontario on April 29, 2011 pursuant to its articles of incorporation.

17. The Funds' securities are offered to investors in various series, and certain of those series are in continuous distribution pursuant to a simplified prospectus and related documents prepared in accordance with National Instrument 81-101 *Mutual Fund Prospectus Disclosure*. The Funds are subject to, among other laws and regulations, NI 81-101, NI 81-102, NI 81-106 and NI 81-107. This legislation is designed, in part, to ensure that the investments of the Funds are diversified, transparent and relatively liquid, to ensure appropriate disclosure to new and existing investors, and to ensure the proper administration of the Funds and management of the IFM's conflicts of interest.

18. Among other fees and expenses, each Fund pays a quarterly performance fee to AlphaNorth, if the percentage gain in the net asset value (NAV) per share of the Fund over the preceding quarter or quarters since a performance fee was last paid to AlphaNorth, exceeds the percentage gain or loss of the applicable benchmark for the Fund over the same period and provided that the NAV per share of the Fund (including distributions) is greater than all previous NAVs per share of the Fund at the end of each previous fiscal quarter in which a performance fee was paid (the **High-Water Mark**). The performance fee will be equal to this excess return per share multiplied by the number of shares outstanding at the end of the quarter, multiplied by 20%.

19. The High-Water Mark in respect of each series of each Fund prior to the Material Time was $10 per share, and neither Fund had paid a performance fee to AlphaNorth since its inception several years earlier.

C. Improper Re-setting of the High-Water Mark for the Growth Fund

20. During the Material Time, AlphaNorth charged and collected a performance fee for the Growth Fund Series A Shares, based on a High-Water Mark of $1.845, which represented the NAV per Growth Fund Series A Share as of May 31, 2016, rather than $10 which was disclosed in the prospectus. This affected investors who acquired Growth Fund Series A Shares on and after June 1, 2016, until the prospectus amendment (referred to below) was filed on April 26, 2017.

21. The Growth Fund paid AlphaNorth a performance fee in respect of the Growth Fund Series A Shares for the third and fourth quarters of 2016, and accrued performance fees for the first quarter of 2017 based on the High-Water Mark of $1.845, which impacted NAV for the Growth Fund Series A Shares during the Material Time. AlphaNorth received approximately $22,735 (inclusive of HST) in performance fees for those periods.

22. On August 25, 2016, AlphaNorth sent investors in Growth Fund Series A Shares who held those securities on June 1, 2016, a notice explaining that all Growth Fund Series A Shares acquired before June 1, 2016 were to be re-designated as series D shares of the Growth Fund (**Growth Fund Series D Shares**) effective October 1, 2016 (the **Re-designation**). Growth Fund Series D Shares were to be identical to the Growth Fund Series A Shares in all respects, including the frequency of redemptions and the High-Water Mark set at $10. This notice was not filed with the Commission or on SEDAR.

23. The Growth Fund Series D Shares were not offered for sale and were closed to additional investment following the Re-designation. The Growth Fund Series A Shareholders who acquired Growth Fund Series A Shares before June 1, 2016 maintained the same High-Water Mark of $10 in respect of the performance fee payable by the Growth Fund Series D Shares. The Re-designation allowed AlphaNorth to collect performance fees on Growth Fund Series A Shares sold on or after June 1, 2016 due to the lower High-Water Mark.

24. AlphaNorth did not take the necessary regulatory steps during 2016 to properly effect the Re-designation.

25. In February 2017, the external auditor of the Growth Fund's financial statements asked for documentation supporting the creation of the Growth Fund Series D Shares and the Re-designation, including articles of amendment and prospectus disclosure. AlphaNorth then engaged external legal counsel to develop a rectification plan, which it carried out as described below, after receiving a positive recommendation to proceed from the IRC and after notifying Staff of the issues regarding the Growth Fund Series A Shares and Growth Fund Series D Shares.

26. On March 6, 2017, AlphaNorth filed articles of amendment to recognize the creation of the Growth Fund Series D Shares and the re-designation of the Growth Fund Series A Shares outstanding before June 1, 2016 to Growth Fund Series D Shares.

Incorrect Prospectus Disclosure

27. AlphaNorth failed to file an amendment to its prospectus for the Growth Fund Series A Shares to disclose the lower High-Water Mark in a timely manner, and therefore investors who acquired Growth Fund Series A Shares from June 1, 2016 to April 26, 2017 (the date of the prospectus amendment, described below), acquired their shares without disclosure of the lower High-Water Mark.

28. AlphaNorth filed a prospectus amendment dated April 26, 2017, which (i) disclosed the Re-designation and (ii) disclosed a second re-designation, effective May 31, 2017, of the Growth Fund Series A Shares outstanding as of May 31, 2017 to Growth Fund Series D Shares. The prospectus amendment also disclosed a lower High-Water Mark applicable to the Growth Fund Series A shares, which would affect investors acquiring Growth Fund Series A shares after April 26, 2017. Growth Fund Series D Shares maintained the High-Water Mark of $10.

29. Investors in Growth Fund Series A Shares, purchasing from June 1, 2016 until April 26, 2017, did not receive accurate disclosure concerning the High-Water Mark applicable on their investment.

Failure to Obtain Securityholder Approval

30. Furthermore, the lowering of the High-Water Mark for Growth Fund Series A Shares as of June 1, 2016 was a fundamental change for which securityholder approval should have been sought by AlphaNorth, as required per paragraph 5.l(l)(a) of NI 81-102. Part 6 of Companion Policy 81-102CP (the Companion Policy) notes that securityholder approval is required before the basis of the calculation of a fee or expense that is charged to an investment fund is changed in a way that could result in an increase in charges to the investment fund, and that the Canadian securities regulatory authorities note that the phrase

"basis of the calculation" includes any increase in the rate at which a particular fee is charged to the investment fund.

Incorrect Continuous Disclosures

31. Form 81-106Fl - *Contents of Annual and Interim Management Report of Fund Performance* (**Form 81-106F1**) requires material information, which is likely to influence or change a reasonable investor's decision to buy, sell or hold securities of an investment fund, to be disclosed in a fund's continuous disclosure documents. The Growth Fund's Management Reports of Fund Performance (**MRFP(s)**) for the six-month period ended June 30, 2016 and the year ended December 31, 2016 did not discuss the change in the High-Water Mark, nor the Re-designation. The Growth Fund's annual audited financial statements for the year ended December 31, 2016 provided disclosure about the Re-designation, but none in respect of the lowered High-Water Mark for Growth Fund Series A Shares.

Failure to Refer to IRC

32. Section 5.1 of NI 81-107 requires conflict of interest matters, which include a situation where a reasonable person would consider a manager to have an interest that may conflict with the manager's ability to act in good faith and in the best interests of the fund, to be referred to the fund's IRC for its review, before the manager may take any action in the matter. AlphaNorth did not refer the Re-designation or the change in High-Water Mark to the IRC, even though the changes to the Growth Fund Series A Shares were a conflict of interest matter for AlphaNorth, and therefore should have been referred to the IRC for their review prior to carrying out the changes.

33. On February 21, 2017, AlphaNorth notified the IRC of the concerns raised by the external auditor with the Re-designation and the resetting of the High-Water Mark for the Growth Fund and explained its intention to develop a rectification plan with the assistance of external counsel. In April 2017, AlphaNorth referred the rectification plan to the IRC and the IRC provided a positive recommendation to proceed with its implementation.

Failure to Identify Deficiencies regarding the Growth Fund

34. The Growth Fund's external auditors' concerns raised during the audit of the Growth Fund's 2016 annual financial statements led AlphaNorth to take steps to rectify the issues around the Re-designation and the lower High-Water Mark.

35. Before the concerns were raised by the external auditor, AlphaNorth and Palmer, in his capacity as CEO and UDP of AlphaNorth, failed to take the necessary steps to ensure compliance with applicable securities and corporate laws, including documenting the newly created Growth Fund Series D Shares, updating the prospectus documents for Growth Fund Series A Shares and Growth Fund Series D Shares, obtaining appropriate securityholder approval, providing adequate disclosures in the MRFPs, and referring the attendant conflicts of interest matters to the IRC.

D. Improper Re-setting of the High-Water Mark for the Resource Fund

36. Between June 8, 2016 and March 31, 2017, AlphaNorth charged and collected a performance fee for Resource Fund Series B Shares by lowering the High-Water Mark in respect of the performance fee payable per share from $10 to $8.916, which was an average of the two different prices of the Resource Fund Series B Shares as acquired by the applicable shareholders in the two tranches referred to in paragraph 37.

37. AlphaNorth did not provide any notice to existing Resource Fund Series B Shareholders of this change. Resource Fund Series B Shares have not been offered to new investors since 2013, and were acquired by Resource Fund Series B Shareholders in two tranches at two different prices. Accordingly, no new shareholders acquired Resource Fund Series B Shares during the Material Time. During the Material Time, AlphaNorth collected $42,839 (inclusive of HST) in performance fees from Resource Fund Series B Shares because of the lower High-Water Mark.

38. In February 2017, the external auditor of the Resource Fund's financial statements inquired about the lowered High-Water Mark in connection with their audit of the Resource Fund's financial statements for the year ended December 31, 2016. AlphaNorth then engaged

external legal counsel to develop a rectification plan, which included reimbursing the Fund and affected Resource Fund Series B Shareholders for the over-payment, inclusive of a 5% per month payment to compensate the Fund and the affected shareholders for lost opportunity costs.

Failure to Obtain Securityholder Approval

39. Resource Fund Series B Shareholders who held Resource Fund Series B Shares as of June 8, 2016 were not provided the opportunity to vote on the lowering of the High-Water Mark by AlphaNorth. As described in paragraph 30 above, the lowering of the High-Water Mark is a fundamental change for which the Resource Fund Series B Shareholders' prior approval should have been sought by AlphaNorth pursuant to paragraph 5.l(l)(a) of NI 81-102.

Incorrect Continuous Disclosures

40. The Resource Fund's MRFPs for the period ended June 30, 2016 and the year ended December 31, 2016 did not reflect the change in the High-Water Mark. As described in paragraph 31 above, material information such as this should have been disclosed pursuant to the requirements of Form 81-106Fl.

41. The Resource Fund's MRFP for the interim period ended June 30, 2017 disclosed the following: "We discovered an error in calculation of the performance fee during the first quarter of 2017. This was corrected ..." AlphaNorth's disclosure in this regard fails to fully reflect AlphaNorth's role in the lowering of the High-Water Mark.

42. The rectification of the performance fee payments was disclosed in the MRFPs for the year ended December 31, 2017.

Failure to Refer to IRC

43. As described in paragraph 32 above, section 5.1 of NI 81-107 requires conflict of interest matters to be referred by the manager to the fund's IRC for its review, before the manager may take any action in the matter. AlphaNorth did not refer its proposal to lower the

High-Water Mark for the Resource Fund Series B Shares, even though the proposal was a conflict of interest matter for AlphaNorth, which necessitated a referral to the IRC and a positive recommendation to proceed by the IRC.

44. AlphaNorth and Palmer, as CEO and UDP, failed to identify, assess or address the securities law implications associated with lowering the High-Water Mark for the Resource Fund, including obtaining appropriate securityholder approval, providing adequate disclosures in the MRFPs, and referring the matter to the IRC.

E. Deficiencies in AlphaNorth's Internal Controls and Compliance Systems

45. AlphaNorth has an obligation as a registrant to establish, maintain and apply policies and procedures that establish a system of controls and supervision to (i) provide reasonable assurance that AlphaNorth and each individual acting on its behalf complies with securities legislation, and (ii) manage the risks associated with its business in accordance with prudent business practices.

46. During a compliance review conducted by Staff covering the period of June 1, 2016 to May 31, 2017 (the **Compliance Review**), Staff identified significant deficiencies in AlphaNorth's compliance with Ontario securities law, including:

a. inadequate oversight of AlphaNorth's dealing activities for third-party exempt products and its dealing representative, who was an agent of AlphaNorth (and not a principal of the partners of AlphaNorth) for the period contrary to subsection 32(2) of the Act and section 11.1 of NI 31- 103;

b. failure to identify and appropriately address conflict of interest matters, and refer them to the Funds' IRC, in relation to finder's fees received from issuers when causing the Funds to invest in certain securities, contrary to subsection 5.1(1) of NI 81-107; and

c. failure to disclose the conflict of interest in the prospectus documents of the Funds, in relation to finder's fees received by AlphaNorth and/or its affiliates when causing the Funds to invest in certain securities, contrary to section 116 of the Act.

47. As the UDP, Palmer failed to discharge the responsibilities required by section 5.1 of NI 31-103, in supervising the activities of AlphaNorth and those acting on its behalf, towards ensuring and promoting compliance with applicable securities legislation.

PART IV - RESPONDENTS' POSITION AND MITIGATING FACTORS

48. The Respondents request that the settlement hearing panel consider the following mitigating circumstances. Staff do not object to the Respondents' position and mitigating circumstances set out below.

49. In making the changes described above for the Growth Fund, AlphaNorth and Palmer differentiated gains for the original investors (who acquired the Growth Fund Series A Shares at a higher NAV), and new investors who acquired Growth Fund Series A Shares at a considerably lower NAV during a market downturn, in an attempt to receive performance fees while being fair and reasonable to Growth Fund Series A Shareholders. During the Material Time, AlphaNorth and Palmer failed to take the necessary regulatory steps to do so. AlphaNorth and Palmer created the Growth Fund Series D Shares and moved all existing investors in Growth Fund Series A Shares to Growth Fund Series D Shares so as to isolate these early investors in the Growth Fund from new investors, while maintaining all the same rights and terms the early investors had been entitled to while Growth Fund Series A Shareholders. Growth Fund Series A Shares with the lower High-Water Mark of $1.845 would be distributed to new investors (acquiring those Growth Fund Series A Shares after June 1, 2016) and early investors would hold Growth Fund Series D Shares with the existing High Water Mark of $10. No additional Growth Fund Series D Shares would be distributed to new investors. The lower High-Water Mark for the Growth Fund Series A Shares was the NAV of those shares as of June 1, 2016, being the date the High Water Mark was changed.

50. AlphaNorth and Palmer implemented a lower High-Water Mark for the Resource Fund Series B Shares by using an average of the two cost bases described in Part III that applied to Resource Fund Series B Shareholders in an attempt to receive performance fees while being fair and reasonable to Resource Fund Series B shareholders. During the Material Time, AlphaNorth and Palmer failed to take the necessary regulatory steps to do so.

51. AlphaNorth sent letters on May 3, 2017 to each affected Growth Fund Series A Shareholder explaining the issues arising out of the Re-designation and the High-Water Mark and its intention to correct the NAV of the Growth Fund and to reimburse affected Growth Fund Series A Shareholders.

52. At the direction of Palmer, AlphaNorth worked expeditiously to correct the issues and, with the assistance of external legal counsel, developed and completed the rectification plan by April 30, 2017, including:

    a. Notifying the IRC of the Funds, as required, immediately upon being notified of the issues by the external auditor of the Funds and receiving their agreement to proceed to rectification;

    b. Notifying Staff of the issues applicable to the Growth Fund immediately upon being notified of the issues by the external auditor of the Funds;

    c. Making all required filings to rectify the prospectus disclosure and the corporate records of the Growth Fund;

    d. Re-designating Growth Fund Series A Shareholders who acquired shares during the Material Time as holders of Growth Fund Series D Shares, so as to maintain the High- Water Mark for these Shareholders at $10;

    e. Calculating the impact on the Growth Fund and the applicable Growth Fund Series A Shareholders of the lower High-Water Mark so as to restitute investors and repay the Fund the amount of the overcharged performance fee - in total, AlphaNorth paid

$55,760 to the Growth Fund and to the affected Growth Fund Series A Shareholders, which was comprised of:

(i) repayment to the Growth Fund of the overpayment of performance fees of $22,735 (inclusive of HST);

(ii) subject to a *de minimis* amount of $25, payments to the Growth Fund Series A Shareholders who redeemed during the Material Time and received redemption proceeds based on the lower NAV per Series A Shares due to the improperly accrued performance fees;

(iii) payment to the Growth Fund for redemptions by the Growth Fund Series A Shareholders who acquired Series A Shares before the NAV was adjusted to take account of the overpayment of performance fees but redeemed those Series A Shares after the time that the NAV was adjusted to take account of the overpayment of performance fees;

f. Calculating the impact on the Resource Fund and the applicable Resource Fund Series B Shareholders of the lower High-Water Mark during the Material Time so as to restitute investors and repay the Fund the amount of the overcharged performance fee, including a 5% per month additional payment to compensate the Fund and the affected Resource Fund Series B Shareholders for lost opportunity costs - in total, AlphaNorth paid $73,386 to the Fund and to the affected Resource Fund Series B Shareholders. The Fund received a payment equal to the overpayment of performance fees ($42,839, inclusive of HST), plus the lost opportunity cost payment. The affected Resource Fund Series B Shareholders were those Series B Shareholders who redeemed Series B Shares during the Material Time at a lower NAV per Series B Share due to the improper performance fee being paid by the Resource Fund.

g. Communicating with all affected shareholders to keep them informed of the issues and their rectification; and

h. Making NAV error report filings pursuant to section 12.14 of NI 31-103 with the Commission in order to document the impact on the NAV of the Funds associated with the overcharging of performance fees and describing the restitution to the Funds and the affected shareholders.

53. The changes to the Funds that are the subject of this Settlement Agreement did not significantly impact the performance of the Funds, although the changes affected the NAV per share of the applicable series of the Funds during the Material Time. Over the Material Time, the NAV per share of the Growth Fund Series A Shares was understated by $0.16 to $0.58 (6.0% to 14.5% as a percentage of the Series A NAV per share). The NAV per share of the Resource Fund Series B Shares was understated by $0.20 to $0.22 (1.1% to 2.2% as a percentage of the Series B NAV per share). The NAV per share of the other series of the Funds were unaffected by these changes.

54. AlphaNorth reimbursed the Funds for the overcharged performance fees, and their respective affected shareholders who acquired or redeemed shares during the Material Time based on incorrect NAVs, as specified in paragraphs 8 and 52 above.

55. At the direction of Palmer, the above-noted compliance issues noted by Staff during the Compliance Review have been resolved by AlphaNorth, through:

a. Terminating the engagement of its dealing representative and ending its practice of acting as EMD for third party issuers (where the Funds are not invested in those issuers), both effective in December 2017;

b. Correcting the Fund disclosures to disclose the applicable finder's fees in both the MRFPs and the prospectus; and

c. Referring the matter regarding the applicable finder's fees to the IRC and obtaining their positive recommendation to proceed, subject to disclosure to investors (via the MRFPs and the prospectus) and to the IRC.

56. Staff do not allege dishonest or intentional misconduct by AlphaNorth or Palmer.

57. The third party EMD activities at issue during the Compliance Review by Staff were limited to less than 60 accredited investors and six issuers in 2016. There were no third party EMD activities during 2017.

58. Palmer and AlphaNorth have co-operated with Staff in connection with Staff's investigation of the matters referred to in this Settlement Agreement.

59. Neither Palmer nor AlphaNorth have any disciplinary history with the Commission.

PART V - CONDUCT CONTRARY TO ONTARIO SECURITIES LAW AND THE PUBLIC INTEREST

A. The Funds

60. Disclosure is a cornerstone principle of securities regulation. Investors are entitled to receive accurate and timely disclosure outlining the costs of investing, among other things, in an investment fund so that they can make an informed purchase decision. The activities described in paragraphs 27-29 above regarding the lack of accurate and timely prospectus disclosures for Growth Fund Series A Shares were contrary to sections 56 and 57 of the Act.

61. AlphaNorth's failure to obtain prior securityholder approval in lowering the High-Water Mark for the Growth Fund Series A Shareholders and the Resource Fund Series B Shareholders as described above was contrary to paragraph 5.l(l)(a) of NI 81-102.

62. AlphaNorth failed to disclose material information in the Growth Fund's MRFPs concerning the Re-designation and the lower High-Water Mark, including the impact on performance fees, and in the Resource Fund's MRFPs concerning the lowering of the High-Water Mark, as described in paragraphs 31 and 40-42 above. The Respondents' conduct resulted in the Growth Fund's MRFPs and the Resource Fund's MRFPs during the Material Time not being prepared in accordance with Form 81-106Fl and was contrary to the requirements of paragraph 4.4(a) of NI 81-106.

63. AlphaNorth's failure to refer the Growth Fund's Re-designation and the lowering of the Funds' High-Water Mark to the Funds' IRC prior to taking any action in the matter was contrary to section 5.1 of NI 81-107.

64. In implementing the changes to lower the High-Water Marks of the Growth Fund Series A Shares and the Resource Fund Series B Shares described above, AlphaNorth did not satisfy the standard of care prescribed for an investment fund manager under paragraph 116(b) of the Act.

65. Palmer, as the CEO and UDP of AlphaNorth, authorized and permitted the breaches of Ontario securities law engaged in by AlphaNorth, contrary to section 129.2 of the Act.

B. AlphaNorth's Internal Controls and Compliance Systems

66. As described above, AlphaNorth's compliance system was not adequate to allow it to discharge its responsibilities under Ontario securities law, as required per subsection 32(2) of the Act and section 11.1 of NI 31-103. Palmer, as the UDP of AlphaNorth, did not adequately discharge his responsibilities as required by section 5.1 of NI 31-103.

67. Collectively, in respect of the Funds and AlphaNorth's internal controls and compliance systems, the above described conduct and non-compliance with Ontario securities law constitute conduct contrary to the public interest.

PART VI - TERMS OF SETTLEMENT

68. The Respondents agree to the terms of settlement set out below and consent to the Order, which provides that:

    a. pursuant to subsection 127(1) of the Act, the Settlement Agreement is approved;

    b. pursuant to paragraph 9 of subsection 127(1) of the Act, AlphaNorth shall pay an administrative penalty of $147,000, to be designated for allocation or for use by the Commission in accordance with subsections 3.4(2)(b)(i) or (ii) of the Act;

c. pursuant to paragraph 9 of subsection 127(1) of the Act, Palmer shall pay an administrative penalty of $100,000, to be designated for allocation or for use by the Commission in accordance with subsections 3.4(2)(b)(i) or (ii) of the Act;

d. pursuant to paragraph 6 of subsection 127(1) of the Act, the Respondents shall be reprimanded; and

e. pursuant to subsection 127.1(1) of the Act, AlphaNorth shall pay $10,000 in costs to the Commission.

69. AlphaNorth has given an undertaking to the Commission in the form attached as Schedule "B" to this Settlement Agreement, under which AlphaNorth undertakes that it shall not increase its fees or take any other steps that would result in its clients bearing any costs or expenses that are incurred by it relating to this Settlement Agreement.

70. As a term and condition of Palmer's registration, Palmer shall successfully complete, and provide proof thereof, the Osgoode Certificate in Regulatory Compliance and Legal Risk Management for Financial Institutions offered by Osgoode Professional Development by no later than twelve months from the date of the Order.

71. AlphaNorth agrees to pay $83,500, representing 50% of the payment described in subparagraph 68(b) above, and the entirety of the payment described in subparagraph 68(e) above, by separate bank drafts at the hearing before the Commission to approve this Settlement Agreement, if this Settlement Agreement is approved. If this Settlement Agreement is approved, AlphaNorth further agrees to pay the remaining 50% of the payment described in subparagraph 68(b) in quarterly instalments of $18,375 each, beginning 3 months after the date that this Settlement Agreement is approved and continuing every 3 months thereafter until the balance of the payment described in subparagraph 68(b) has been made.

72. Palmer agrees to make the payment described in subparagraph 68(c) above by bank draft at the hearing before the Commission to approve this Settlement Agreement, if this Settlement Agreement is approved.

PART VII - FURTHER PROCEEDINGS

73. If the Commission approves this Settlement Agreement, Staff will not commence any proceeding against the Respondents under Ontario securities law in relation to the facts set out in Part III of this Settlement Agreement, unless the Respondents fail to comply with any term in this Settlement Agreement, in which case Staff may bring proceedings under Ontario securities law against the Respondents that may be based on, among other things, the facts set out in Part III of this Settlement Agreement as well as the breach of the Settlement Agreement.

74. The Respondents acknowledge that, if the Commission approves this Settlement Agreement and the Respondents fail to comply with any term in it, the Commission is entitled to bring any proceedings necessary to enforce compliance with the terms of the Settlement Agreement.

75. The Respondents waive any defences to a proceeding referenced in paragraphs 73 and 74 that are based on the limitation period in the Act, provided that no such proceeding shall be commenced later than six years from the date of the occurrence of the last failure to comply with this Settlement Agreement.

PART VIII - PROCEDURE FOR APPROVAL OF SETTLEMENT

76. The parties will seek approval of this Settlement Agreement at a public hearing (the Settlement Hearing) before the Commission, which shall be held on a date determined by the Secretary to the Commission in accordance with this Settlement Agreement and the Commission's Rules of Procedure, adopted October 31, 2017.

77. Staff and the Respondents agree that this Settlement Agreement sets forth all agreed facts that will be submitted at the Settlement Hearing, unless the parties agree that additional facts should be submitted at the Settlement Hearing.

78. If the Commission approves this Settlement Agreement:

    a. the Respondents irrevocably waive all rights to a full hearing, judicial review or appeal of this matter under the Act; and

    b. neither Staff nor either of the Respondents will make any public statement that is inconsistent with this Settlement Agreement or with any additional agreed facts submitted at the Settlement Hearing.

79. Whether or not the Commission approves this Settlement Agreement, the Respondents will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement as the basis for any attack on the Commission's jurisdiction, alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

PART IX - DISCLOSURE OF SETTLEMENT AGREEMENT

80. If the Commission does not make the Order:

    a. this Settlement Agreement and all discussions and negotiations between Staff and the Respondents before the Settlement Hearing will be without prejudice to Staff and the Respondents; and

    b. Staff and the Respondents will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Statement of Allegations. Any such proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this Settlement Agreement.

81. Staff and the Respondents will keep the terms of the Settlement Agreement confidential until the Settlement Hearing, unless they agree in writing not to do so or unless otherwise required by law. If, for whatever reason, the Commission does not approve the Settlement Agreement, the terms of the Settlement Agreement shall remain confidential indefinitely, unless Staff and the Respondent otherwise agree or if required by law.

PART X - EXECUTION OF SETTLEMENT AGREEMENT

82. This Settlement Agreement may be signed in one or more counterparts which together constitute a binding agreement.

83. A facsimile copy or other electronic copy of any signature will be as effective as an original signature.

DATED at Toronto, Ontario this 13th day of February, 2019.

"Joey Javier"	*"Steven Douglas Palmer"*
Witness (print name): Joey Javier	AlphaNorth Asset Management

DATED at Toronto, Ontario this 13th day of February, 2019.

"Joey Javier"	*"Steven Douglas Palmer"*
Witness (print name): Joey Javier	Steven Douglas Palmer

DATED at Toronto, Ontario this *"13th"* day of "*February"*, 2019.

ONTARIO SECURITIES COMMISSION

By: *"Jeff Kehoe"*

Name: Jeff Kehoe
Title: Director, Enforcement Branch

SCHEDULE "A"

Ontario Securities Commission | Commission des valeurs mobilières de l'Ontario | 22nd Floor, 20 Queen Street West, Toronto ON M5H 3S8 | 22e étage, 20, rue queen ouest, Toronto ON M5H 3S8

File No.

IN THE MATTER OF

ALPHANORTH ASSET MANAGEMENT AND STEVEN DOUGLAS PALMER

Commissioner Timothy Moseley

[month] ____, 2019

ORDER

(Sections 127 and 127.1 of the *Securities Act*, RSO 1990, c S.5)

WHEREAS on *"February 19th"*, 2019, the Ontario Securities Commission held a hearing at the offices of the Commission, located at 20 Queen Street West, 17th Floor, Toronto, Ontario, to consider the approval of a settlement agreement dated *"February 19th"*, 2019 (the **Settlement Agreement**) between AlphaNorth Asset Management (**AlphaNorth**) and Steven Douglas Palmer (**Palmer**) (the **Respondents**) and Staff of the Commission (**Staff**);

AND WHEREAS pursuant to the Settlement Agreement, the Respondents have given undertaking (the **Undertaking**) to the Commission dated **[date]**, in the form attached as Schedule "A" to this Order, which provide that:

> AlphaNorth undertakes that it shall not increase its fees or take any other steps that would result in its clients bearing any costs or expenses that are incurred by it relating to this Settlement Agreement; and

ON READING the Statement of Allegations dated **[date]**, the Settlement Agreement, and the Undertaking, and on hearing the submissions of the representatives of Staff and the Respondents;

IT IS ORDERED THAT:

1. the Settlement Agreement is approved;

2. pursuant to paragraph 9 of subsection 127(1) of the Act, AlphaNorth shall pay an administrative penalty of $147,000, to be designated for allocation or for use by the Commission in accordance with subsections 3.4(2)(b)(i) or (ii) of the Act. This administrative penalty shall be paid as follows. AlphaNorth shall pay $73,500, representing 50% of $147,000 on the date of this Order. AlphaNorth shall pay the remaining 50% of $147,000 in quarterly instalments of $18,375 each, beginning 3 months after the date of this Order and continuing every 3 months thereafter until the balance of the payment has been made;

3. pursuant to paragraph 9 of subsection 127(1) of the Act, Palmer shall pay an administrative penalty of $100,000 to be designated for allocation or for use by the Commission in accordance with subsections 3.4(2)(b)(i) or (ii) of the Act;

4. pursuant to paragraph 6 of subsection 127(1) of the Act, the Respondents shall be reprimanded;

5. pursuant to subsection 127.1(1) of the Act, AlphaNorth shall pay $10,000 in costs to the Commission; and

6. pursuant to paragraph 1 of subsection 127(1) of the Act, as a term and condition of Palmer's registration, Palmer shall successfully complete, and provide proof thereof, the Osgoode Certificate in Regulatory Compliance and Legal Risk Management for Financial Institutions offered by Osgoode Professional Development by no later than twelve months from the date of the Order.

_____

Commissioner Timothy Moseley

SCHEDULE "B"

IN THE MATTER OF ALPHANORTH ASSET MANAGEMENT AND STEVEN DOUGLAS PALMER

UNDERTAKING TO THE ONTARIO SECURITIES COMMISSION

This Undertaking is given in connection with the settlement agreement dated as of *"February 13th"*, 2019 between AlphaNorth Asset Management, Steven Douglas Palmer and Staff of the Commission (the "Settlement Agreement"). All terms shall have the same meanings in this Undertaking as in the Settlement Agreement.

1. AlphaNorth undertakes that it shall not increase its fees or take any other steps that would result in its clients bearing any costs or expenses that are incurred by it relating to this Settlement Agreement.

DATED at Toronto, Ontario as of the *"13th"* day of "*February"*, 2019.

AlphaNorth Asset Management

By: *"Steven Douglas Palmer"*

Steven Douglas Palmer
President and Chief Executive Officer