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Venezuela to date). As such, absent Crystallex being able to recover additional Arbitration Proceeds, the CVRs are worthless. In the absence of being able to recover additional Arbitration Proceeds, the only other way for Tenor and Crystallex management to attempt to bring their CVRs “into the money” is to reduce the amount Crystallex is required to pay to the Noteholders and other pre-filing creditors. As such, Crystallex’s directors and management that have an interest in the CVRs are in a significant conflict of interest as relates to the amounts payable by Crystallex to Noteholders and other pre-filing creditors.

64. Given these significant conflict issues and their potential impact on the progress and outcome of this case, the Noteholder Committee believes that it is appropriate for this Court and Crystallex’s stakeholders to have the benefit of an independent review of governance and conflict of interest matters. The proposed Governance and Disclosure Order directs the Monitor to engage an independent governance specialist acceptable to the Monitor and the Noteholder Committee to review governance and conflict of interest matters in respect of Crystallex and to report to this Court in respect of such matters prior to the Sanction Hearing.

**N. Crystallex’s Continuing Failure to Provide Proper Disclosure**

65. In the early stages of this case, Crystallex disclosed the terms of its DIP financing (including the percentage CVR interest of Tenor) and the Monitor filed public cash flow projections and reconciliations for Crystallex as in any other CCAA case. However, beginning in 2014, Crystallex began seeking sealing orders for this type of information. In addition, Crystallex filed the Original Settlement under seal and, initially, the Amended Settlement as well. The result is that I and other non-insider stakeholders have, at best, an incomplete understanding of Crystallex’s finances, including its available cash, operating expenses, post-filing obligations, cash burn, remaining liquidity and capital structure.
66. The Trustee and the Noteholder Committee have consistently objected to the sealing of information by Crystallex and have raised the lack of proper disclosure in this case with the Monitor on a continuing basis. Pursuant to paragraph 29 of the Initial Order, the

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Monitor is prevented from disclosing information to a creditor in response to a request for information where Crystallex advises the Monitor that such information is confidential. The Monitor has repeatedly advised counsel to the Trustee and Noteholder Committee that Crystallex has objected to the disclosure of certain information requested by the Noteholder Committee on the basis that such information is allegedly confidential.

67. Crystallex's stated reason for sealing its financial information is that it could impair its competitive position vis-à-vis Venezuela and/or other entities also pursuing claims against Venezuela. In the case of the Original Settlement, Crystallex advised the Court that Venezuela required that the settlement remain confidential and that such confidentiality was "extremely important" to Venezuela. In the case of the Amended Settlement, I am not even aware what Crystallex's position was regarding confidentiality as the entire motion record was sealed and the hearing held *in camera*. In contrast to Crystallex's approach, I note that several other corporations that have pursued claims against Venezuela and reached settlements, namely Gold Reserve, Rusoro Mining and ConocoPhillips, have provided ample disclosure to their stakeholders regarding the terms of their respective settlements.
68. Notwithstanding that the Amended Settlement was initially filed with this Court on a sealed basis, each of PDVSA (who Crystallex alleges is controlled by Venezuela) and Crystallex filed the Amended Settlement with the Third Circuit on a public basis before it was made publically available in these proceedings by Crystallex or the Monitor. In fact, I first received a copy of the Amended Settlement as a result of Crystallex having filed it in the Third Circuit, rather than through disclosure in these CCAA proceedings. I believe it is entirely improper that better and more timely disclosure is available to Crystallex's stakeholders via monitoring filings in Crystallex's U.S. litigation and other online sources, rather than through proper and timely disclosure of information by Crystallex or the Monitor in the CCAA proceedings.
69. On January 30, 2019, counsel to the Trustee and the Noteholder Committee wrote to the Monitor to request that certain basic financial information regarding Crystallex be disclosed on a public basis for purposes of facilitating the Trustee and Noteholder Committee's desire to progress a plan and distributions to creditors, including the amount

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of cash Crystallex has on hand and the accrued post-filing liabilities of Crystallex. A copy of this letter is attached as Exhibit “J”. I am advised by counsel that on February 19, 2019, the Monitor provided certain of the requested information, but advised that Crystallex believed the requested information was sensitive and should not be made public. Accordingly, none of the requested information has been made available to the Trustee or the Noteholder Committee.

70. Although I have never agreed with Crystallex’s basis for sealing financial information in this case, I do not understand why public disclosure of basic financial information at this stage of the case could be considered prejudicial given: (i) Venezuela has paid whatever cash Crystallex has on hand to it (and therefore Venezuela must, of course, know what that amount is); and (ii) Crystallex has at least \$425 million of liquid assets on hand (i.e. it is not like earlier periods in the case where Crystallex apparently had limited resources and did not want Venezuela or others to be aware of this fact).
71. I am very concerned that Crystallex’s continuing failure to make basic financial information available to non-insider stakeholders is part of its strategy to keep the Noteholders and other non-insider stakeholders “in the dark” as a means of achieving an advantage in any negotiations. My concern is heightened by Tenor’s and management’s interest in the CVRs and the economic incentive this creates for these parties to limit the recoveries of the Noteholders and other pre-filing creditors, as outlined above at paragraphs 60 to 64.
72. I understand that it may be open to Stornoway to sign a confidentiality agreement with Crystallex to access certain confidential information. Based on my discussions with Goodmans (including based on Goodmans experience with attempting to access confidential information from Crystallex under its Court-approved confidentiality agreement), I am concerned that even if Stornoway agreed to receive information on a confidential basis, I would not receive adequate disclosure to allow me to make informed decisions in any negotiations. Further, receiving confidential information under some sort of open ended confidentiality arrangement which does not have a clear termination date or provide for a “cleansing” of confidential information following a reasonable period of time is not a workable solution for Stornoway, who makes investments on behalf of third

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party investors in its funds and needs to be able to share information with its investors, and inasmuch as receipt of confidential information may restrict Stornoway's ability to trade its Notes. I also believe the disclosure of reasonable financial and other relevant information is a fundamental responsibility for a company that raised capital on a public basis and is subject to an ostensibly public Court proceeding in which it has stayed the rights of creditors and other stakeholders for more than seven years.

73. To enable the Monitor to exercise its independent judgment with respect to disclosure and to prevent Crystallex from unilaterally blocking the disclosure of information, the proposed Governance and Disclosure Order would amend paragraph 29 of the Initial Order to provide that the Monitor shall provide to a creditor of Crystallex any information reasonably requested by such creditor, unless the Monitor determines that such information is confidential or any person obtains an order of the Court prohibiting such disclosure. I believe that this provision will strike the appropriate balance between protecting legitimate confidential information and ensuring that the Noteholder Committee and other stakeholders have the key information needed to participate on a level playing field and advance the Plan and these proceedings.

#### **IV. FAILURE OF CRYSTALLEX TO ADVANCE A PLAN OR DISTRIBUTION**

74. As described above, pursuant to the Standstill Order, Crystallex is obligated to pay amounts owing in respect of the Notes (including the Proven Standstill Noteholder Claim) to the Trustee in accordance with the Waterfall Provision after Arbitration Proceeds are received by it. Based on Crystallex's U.S. court filings and the Monitor's reports, I understand that as of November 25, 2018, Crystallex had received approximately \$500 million of cash and Liquid Securities from Venezuela pursuant to the Original Settlement and the Amended Settlement. I believe such amounts constitute "Arbitration Proceeds" within the meaning of the Waterfall Provision and the Standstill Order.



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75. The Waterfall Provision also provides that:

If [Crystallex] receives any Arbitration Proceeds during the CCAA Case, then promptly upon such receipt and before distribution or application thereof, [Crystallex] shall calculate and determine the amounts thereof that are to be distributed and applied as hereinafter provided in this section of this Exhibit F<sup>5</sup> and shall submit a statement setting out such calculation and determination to [Tenor] and the Monitor for their approval, and if [Tenor] and Monitor fail to give such approval or disagree as to whether it should be given, then [Crystallex] shall submit such statement to the CCAA Court.<sup>6</sup>

76. Pursuant to the Standstill Order and a prior endorsement of this Court, Crystallex is obligated to provide any Distribution Statement to the Trustee and the Noteholder Committee at the same time such statement is delivered to Tenor and the Monitor. To date, Crystallex has not delivered a Distribution Statement setting forth any proposed payment to creditors out of the nearly \$500 million of Arbitration Proceeds received to date; however, Crystallex has advised it has paid or intends to pay nearly \$58 million of Arbitration Proceeds on account of post-filing expenses, including nearly \$38 million owing to its professional advisors. I note that until very recently, neither Crystallex nor the Monitor had disclosed that Crystallex had accrued such significant unpaid obligations to its professional advisors, another fact that I believe supports the need for the Court to address the provision of information to stakeholders in this proceeding.
77. Crystallex has previously advised the Trustee and Noteholder Committee that it has no intention of advancing a plan of compromise or arrangement to creditors. Crystallex has also recently advised that, in its view, a plan of arrangement or distribution to creditors is somehow premature, even though this case has been ongoing for more than seven years and nearly \$500 million of Arbitration Proceeds has been recovered. I do not believe that Crystallex has properly engaged with the Noteholders or other creditors to advance matters that would allow for a timely and efficient distribution to creditors.

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<sup>5</sup> Being the Waterfall that is summarized at paragraph 25 hereof.

<sup>6</sup> I refer to the statement described in the Waterfall Provision herein as a “**Distribution Statement**”.

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78. Furthermore, Crystallex has resorted to threats of litigation in an attempt to prevent the Noteholder Committee from advancing the Plan. I am informed by Goodmans that it received a letter from counsel to Crystallex dated March 5, 2019, in which counsel to Crystallex indicated that if the Trustee and Noteholder Committee proceeded with a motion in respect of the Plan, Crystallex and Tenor would seek damages against all responsible parties for any adverse consequences that resulted in relation to Crystallex's ability to monetize its assets. As the letter was delivered by counsel to Crystallex on an allegedly confidential basis subject to the terms of Goodmans' non-disclosure agreement, I have not been provided with a copy of the letter. However, Goodmans advised the Noteholder Committee of the litigation threatened by counsel to Crystallex in that letter on the basis that such a threat could not be made on a confidential or without prejudice basis.
79. By reply letter dated March 8, 2019, a copy of which is attached as Exhibit "K", Goodmans reiterated that the Plan contained appropriate mechanisms to address monetization and distribution matters and objected to Crystallex's premise that the filing and implementation of a CCAA plan – i.e. doing the very thing the CCAA is intended to facilitate – could attract liability for creditors that are seeking payment of their claims after more than seven years of these CCAA proceedings.
80. Crystallex and Tenor have worked closely together during the CCAA proceedings and I believe that the CCAA proceedings are now largely being advanced for the benefit of one stakeholder – Tenor – who, together with Crystallex's management, is likely entitled to all or substantially all of any Net Arbitration Proceeds available for distribution. As a result, I believe that the interests of Crystallex's pre-filing creditors and Shareholders have become a secondary focus, notwithstanding Crystallex's statements at the commencement of these proceedings regarding the need to advance the arbitration for the benefit of all stakeholders and pay Noteholders in full with interest and a premium.
81. I strongly disagree with Crystallex's approach and believe that Crystallex, as a CCAA debtor, should be doing everything in its power to advance a plan and distributions to its creditors as soon as possible. Specifically, I believe that the progression of a plan at this juncture is in the best interest of all stakeholders, including because it will provide for

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distributions to creditors who have been waiting more than seven years to be repaid amounts due and owing to them. In addition, progressing a plan and distributions to creditors will assist in eliminating or reducing the significant interest expense being incurred by Crystallex to the detriment of junior stakeholders.<sup>7</sup>

## **V. PROPOSED PLAN**

### **A. Consultation Process**

82. Over the course of late 2018 and into early 2019 myself and/or other principals of the participants in the Noteholder Committee have met or spoke with David Kay and/or Robin Shah, the two Tenor nominee directors of Crystallex, on several occasions on a without prejudice basis to explore a consensual means of advancing this case. Unfortunately, no progress has been made in the context of these without prejudice discussions.
83. On December 20, 2018, counsel to the Trustee and Noteholder Committee wrote to Crystallex, Tenor and the Monitor to propose an “all hands” meeting for the week of January 7, 2019, to discuss next steps in the case from the Noteholder Committee’s perspective. Representatives of Crystallex and Tenor declined to attend the proposed meeting, which ultimately went ahead with representatives of the Trustee, the Noteholder Committee and the Monitor on January 10, 2019. Following this initial meeting, counsel to the Trustee and Noteholder Committee (in some cases along with participants in the Noteholder Committee) met with the Monitor and its counsel on several additional occasions for further without prejudice discussions.

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<sup>7</sup> Based on my calculations: (i) the average 2019 daily interest expense to Crystallex of the loans under the DIP Credit Agreement is approximately \$36,113, with an annual interest cost for 2019 of approximately \$13.2 million; and (ii) the average 2019 daily interest cost to Crystallex on account of the Notes at the contractual rate of 9.375% compounded semi-annually is approximately \$65,000, with an annual interest cost for 2019 of approximately \$23.7 million.

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84. Without prejudice discussions or meetings have also been held among counsel to Crystallex, Tenor, the Monitor and the Trustee and the Noteholder Committee, with the last such meeting occurring on February 22, 2019.
85. I understand that shortly after swearing this affidavit, counsel to the Trustee and the Noteholder Committee will deliver the Trustee and Noteholder Committee's motion to Crystallex and the Monitor in accordance with the Endorsement of Newbould J. (as he then was) dated June 7, 2016, along with a copy of this affidavit. I also understand a copy of the foregoing materials will be delivered to counsel to Tenor on a courtesy basis.

**B. Overview of the Plan and Meeting Order**

86. A copy of the proposed Plan is attached hereto as Exhibit "L". All capitalized terms used in this section of my affidavit and not otherwise defined have the meanings given to them in the Plan.
87. The purposes of the Plan are to: (i) satisfy, or reserve sufficient funds for the payment of, all of Crystallex's Post-Filing Obligations; (ii) effect a timely repayment of Crystallex's interest-bearing obligations to reduce the ongoing accrual of interest and thereby maximize available recoveries for stakeholders; (iii) provide for the payment in full of all DIP Obligations owing to the DIP Lender pursuant to the DIP Credit Agreement; (iv) provide for the assignment by the Trustee, to and for the benefit of Shareholders, of the rights of the Trustee in respect of the Trustee Pre-Filing Fees and Expenses Claim; (v) provide for the payment in full and release of all Allowed Affected Claims; (vi) provide for the release of the Released Claims; and (vii) reserve certain amounts from Crystallex's Available Cash to provide funding for the payment of any potential tax obligations and priority claims, and for future administrative expenses.
88. If approved by Affected Creditors and the Court, the Plan will result in an efficient and orderly distribution of Crystallex's Available Cash (including, but not limited to, the Arbitration Proceeds received by Crystallex from time to time in Cash or that have been monetized or converted to Cash pursuant to the terms of the Plan) and enable the payment in full of the DIP Obligations and the proven claims of Affected Creditors.

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89. I believe that the proposed Plan is consistent with the Standstill Order, including the Waterfall Provision as incorporated therein.
90. The proposed Plan information statement, a copy of which is attached as Exhibit “M” hereto, provides a summary overview of the terms of the Plan. Certain key features and aspects of the Plan are summarized and discussed in the paragraphs that follow.

**C. Affected Creditors**

91. The Plan contemplates one class of voting creditors, being the Affected Creditors Class, which consists of holders of Pre-filing Claims, Restructuring Claims and Noteholder Claims.
92. Each Affected Creditor will be entitled to one vote on the Plan, which vote shall have a value equal to the aggregate dollar value of such Affected Creditor’s proven claim. The Plan and the Meeting Order include mechanisms governing the voting and resolution of Unresolved Claims.
93. Unaffected Creditors, including the DIP Lender, are not affected under the Plan and are not entitled to vote on it. Holders of Equity Claims are also Unaffected Creditors under the Plan and are not entitled to vote on it.

**D. Distributions and Monetization of Arbitration Proceeds**

94. The Plan contemplates the distribution of the Available Cash of Crystallex, net of reserves, to satisfy Crystallex’s accrued Post-Filing Obligations, the DIP Obligations and the proven claims of Affected Creditors in full. Accrued Post-Filing Obligations and the DIP Obligations will be paid in full prior to distributions to Affected Creditors. To the extent Crystallex has insufficient Available Cash to satisfy the proven claims of Affected Creditors in full at Plan Implementation or on subsequent Distribution Dates, distributions will be made to Affected Creditors on a *pro rata* basis and the portion of such proven claims that remains outstanding shall continue to accrue interest as provided for under the Plan, and shall be satisfied at future Distribution Dates.

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95. To facilitate distributions under the Plan, Crystallex, in consultation with the Monitor, the DIP Lender and the professional advisors to the Trustee and the Noteholder Committee, shall monetize all Arbitration Proceeds and other marketable securities, liquid securities or non-U.S. dollar denominated Cash in the possession of Crystallex from time to time, whether prior to or following the Plan Implementation Date (any such sale, monetization or conversion being a “**Monetization of Proceeds**”) in a commercially reasonable manner; provided, however, that any Monetization of Proceeds shall be subject to the prior consent of the Monitor or Order of the Court.

**E. Tax Reserve**

96. I understand that pursuant to the DIP Credit Agreement, KPMG LLP (“**KPMG**”) is to prepare a tax analysis to determine the amount of any tax payable by Crystallex, which analysis will be shared with the DIP Lender. The Noteholder Committee’s attempt in May 2018 to impose a reasonable timeline on the delivery of KPMG’s report was denied. At that time, Crystallex indicated it would take “a number of months” to complete the KPMG analysis. Nearly a year later, to the best of my knowledge, the KPMG analysis has still not been completed. In addition, although a prior Order of this Court dated December 18, 2014 (a copy of which is attached as Exhibit “N”) requires Crystallex to disclose to Goodmans under its confidentiality agreement any information and documents made available by Crystallex to the DIP Lender, Crystallex has advised it has no intention of providing the KPMG report or related tax information to Goodmans.
97. In light of the foregoing, the Noteholder Committee requested that Goodmans estimate the current tax position of Crystallex based on publically available information, including Crystallex’s historic financial statements (the most recent of which is from 2012), an estimate of expenditures incurred by Crystallex since that time, and certain other assumptions that Goodmans considered reasonable in the circumstances.
98. Based on this analysis, I understand that Crystallex should have sufficient tax attributes to shelter at least \$500 million of Arbitration Proceeds from Canadian income tax. I further understand that having regard to the current situation, including the present uncertainty regarding the collectability of the approximately \$814 million remaining to be paid under

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the Amended Settlement, Crystallex should not have a Canadian income tax liability until more than \$500 million of Arbitration Proceeds are received (and possibly a greater amount than that), assuming Crystallex takes reasonable steps to manage its tax position in the circumstances.

99. Notwithstanding the view that no tax is presently payable by Crystallex, the Plan contemplates the establishment of a Tax Reserve in the amount of \$10 million, or such other amount as may be (i) agreed to by Crystallex, the Monitor, the DIP Lender, the Noteholder Committee and the CRA prior to the Plan Implementation Date, or (ii) ordered by the Court at the Sanction Hearing.

**F. Repayment of DIP Obligations**

100. Under the Plan, Crystallex will repay the DIP Obligations (i.e. the principal, interest and reasonable expenses outstanding under the DIP Credit Agreement, but excluding any CVR entitlements) in full. If Crystallex has insufficient Available Cash to pay the DIP Obligations in full at Plan Implementation, the DIP Obligations will be paid down to the extent of the Available Cash and any remaining portion of the DIP Obligations shall continue to accrue interest until paid in full by Crystallex. I note that timely repayment of the DIP Obligations is in the interest of all stakeholders insofar it will stop the accrual of further interest under the DIP Credit Agreement at a rate of 10% per annum, compounded semi-annually. As noted above, for the year 2019, this would amount to approximately \$13.2 million of interest savings for Crystallex and its stakeholders.

**G. Claims of Affected Creditors and the Aggregate Allowed Noteholder Claim**

101. The Plan contemplates the payment in full of the proven claims of Affected Creditors upon Plan Implementation and, as necessary, on one or more subsequent Distribution Dates. Proven claims of Affected Creditors will be calculated consistent with the Standstill Order for the period through December 31, 2015 (i.e. the end of the Standstill Period). With respect to the period after the Standstill Period (the “**Post-Standstill Period**”), proven claims of Affected Creditors will be entitled to interest at the

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contractual rate established under the Trust Indenture of 9.375% plus an additional 2.625% per annum, compounded semi-annually.

102. The Plan establishes a uniform interest rate for proven claims of Affected Creditors for the Post-Standstill Period, being the applicable interest rate under the Trust Indenture of 9.375% compounded semi-annually plus additional interest of 2.625%. I believe that applying a uniform interest rate to the claims of all Affected Creditors for the Post-Standstill Period will assist in administration of the Plan and reduce professional expenses insofar as it will eliminate the need for an individual assessment of the interest entitlements of Affected Creditors for the Post-Standstill Period, as well as the possibility of any litigation regarding such entitlements. Given that the Monitor has previously estimated the claims of Affected Creditors other than Noteholders to be in the range of approximately \$4.3 million to \$12 million, I believe this is a fair and reasonable approach that will not have a material impact on any distributions Crystallex may ultimately be able to make to holders of the CVRs or to Shareholders once it has satisfied the proven claims of Affected Creditors in full.
103. In addition, the Plan contemplates the possibility of Additional Plan Consideration, in an amount to be agreed to by Crystallex, Tenor and the Noteholder Committee, with the consent of the Monitor, to be distributed to Affected Creditors on a pro rata basis.
104. The Plan establishes the Aggregate Allowed Noteholder Claim, which is deemed to be a Proven Claim for purposes of the Plan. The Aggregate Allowed Noteholder Claim has been calculated as described in the table below (which assumes a Plan Implementation date of June 30, 2019, and that the Aggregate Allowed Noteholder Claim will be paid in full on such date):<sup>8</sup>

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<sup>8</sup> The Post-Standstill Period expense reimbursement is an estimated amount that is subject to change. I note that, like under the Standstill Order, the Post-Standstill Period expense reimbursement portion of the Aggregate Allowed Noteholder Claim is subject to the Monitor confirming the incurrence of such fees and expenses by the Trustee or the participants in the Noteholder Committee.



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<u>Item</u>	<u>Amount</u>
1. Proven Standstill Noteholder Claim	\$188,198,213.88
2. Post-Standstill Expense Reimbursement	\$2,500,000.00
3. Post-Standstill Interest @ 9.375% + 2.625%	\$95,995,619.15
4. Aggregate Allowed Noteholder Claim	<b>\$286,693,833.03</b>

105. As noted, the Plan provides for additional interest of 2.625% during the Post-Standstill Period, the same post-filing default rate that was agreed among Crystallex, Tenor and the Trustee and approved under the Standstill Order. I believe this additional interest represents a fair and reasonable premium payable by Crystallex to the Noteholders and other Affected Creditors for the following reasons:

- (a) The Noteholder Committee has not advanced a plan or other restructuring transaction since Crystallex terminated the Standstill Period at the end of 2015, instead electing to allow Crystallex to focus its efforts on pursuing its dual-track strategy of enforcing the Award and negotiating with Venezuela, and preserving Crystallex's resources for these efforts. As under the Standstill Order, it is fair and reasonable for Noteholders and other Affected Creditors to be compensated for having "stood-down" and waited for Crystallex to pursue its strategy.
- (b) The rate of interest payable under the Trust Indenture was a rate that was agreed based on financing a gold mining company, with interest to be paid semi-annually in arrears and the principal amount of the Notes to be repaid in full seven years after their issuance. Over the course of these CCAA proceedings, Noteholders have instead been forced to finance an arbitration claim against Venezuela, a much riskier investment, and have waited a further seven plus years to be repaid amounts owing to them, more than double the original term of the Notes. It is fair and reasonable that Noteholders and other Affected Creditors be compensated for this additional risk and additional time waiting to be repaid.
- (c) Pursuant to the DIP Credit Agreement, Crystallex and Tenor agreed that Crystallex would not increase the rate of interest payable on any pre-filing claim above 15% per annum, not compounded. Although pre-filing creditors are not bound by this Agreement, the aggregate rate of interest under the Plan for the

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Post-Standstill Period will only be increased to 12% per annum, compounded semi-annually, provided, however, that pre-filing creditors will not be entitled to receive aggregate Post-Standstill Period interest in excess of an amount that would be greater than 15% simple interest per annum for such period. Accordingly, the proposed rate of interest under the Plan for the Post-Standstill Period complies with the agreement reached between Crystallex and Tenor when they negotiated the terms of the DIP Credit Agreement and what amounts Crystallex could pay to pre-filing creditors as a premium.

- (d) The proposed rate of interest is significantly below the 20% simple interest per annum that was negotiated and agreed on an arm's length basis among Crystallex, Tenor and the Noteholder Committee under the Standstill Order.
  - (e) The Plan provides several benefits to Crystallex and its stakeholders, including releases in favour of Crystallex and its Directors and Officers and the reduction or elimination of Crystallex's interest-bearing debt, and the proposed additional interest is fair and reasonable compensation to the Noteholders and other pre-filing creditors for developing, supporting, progressing and implementing the Plan.
106. The table below sets forth the Proven Standstill Noteholder Claim Amount plus \$2,500,000 (i.e. the estimated Post-Standstill Period expense reimbursement) at various interest rates for the Post-Standstill Period, with the total Noteholder claim amount calculated as at June 30, 2019. I also believe the proposed additional interest of 2.625% per annum during the Post-Standstill Period is fair and reasonable having regard to these comparables and the circumstances of these proceedings.

	<u>Indenture Rate</u>	<u>Standstill Rate</u>	<u>Permitted DIP Rate</u>	<u>Plan Rate</u>
1. Proven Standstill Noteholder Claim + Post-Standstill Expense Reimbursement	\$190,698,213.88	\$190,698,213.88	\$190,698,213.88	\$190,698,213.88
2. Interest Rate	9.375%	20.000%	15.000%	12.000%
3. Compounding/Simple	Bi-annual	Simple	Simple	Bi-annual
4. Post-Standstill Interest	\$72,059,769.46	\$133,436,503.63	\$100,077,377.72	\$95,995,619.15
5. Total Noteholder Claim	<b>\$262,757,983.34</b>	<b>\$324,134,717.51</b>	<b>\$290,775,591.60</b>	<b>\$286,693,833.03</b>

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## **H. Plan Releases**

107. The Plan provides for certain releases in favour of the Monitor, Crystallex, Directors and Officers, Affected Creditors (including the Trustee, the Noteholders and the Noteholder Committee) and their respective related parties upon Plan Implementation. Of note, the Plan releases Crystallex and the Directors and Officers from any Causes of Action based in whole or in part on Plan and Distribution Matters, including any Cause of Action that has been or could be asserted by Venezuela or any Taxation Authority in respect of Plan and Distribution Matters.
108. In addition, the Plan contemplates a release for any person who, whether prior to, on or following the Plan Implementation Date, makes a contribution of value acceptable to the Monitor or approved by the Court (such contribution being a “**Contributed Amount**”). Any Contributed Amount shall be distributed amongst Crystallex’s Shareholders on a *pro rata* basis based on their respective shareholdings.
109. Nothing in the Plan discharges or releases: (i) the right to enforce the Monitor’s or Crystallex’s obligations under the Plan; (ii) Crystallex from or in respect of any Unaffected Claim or any Claim that is not permitted to be released pursuant to subsection 19(2) of the CCAA; or (iii) any Director or Officer from any D&O Claim that is not permitted to be released pursuant to subsection 5.1(2) of the CCAA.

## **I. Assignment of the Trustee Pre-Filing Fees and Expenses Claim and Entitlement to Contributed Amount**

110. On the Plan Implementation Date, the Trustee shall assign its rights in respect of the Trustee Pre-Filing Fees and Expenses Claim in the amount of \$5,165,917.39 to Crystallex’s Shareholders.

## **J. Conditions for Implementation of the Plan**

111. In order for the Plan to be approved pursuant to the CCAA, the Plan must be approved by a majority in number of the Affected Creditor Class representing at least two-thirds in value of the Allowed Affected Claims of Affected Creditors, in each case present and

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voting in person or by proxy on the resolution approving the Plan at the Meeting. If such approval is obtained, the Trustee and Noteholder Committee will bring a motion seeking the Sanction Order.

112. The implementation of the Plan is conditional upon satisfaction of the following key conditions:
- (a) the Plan shall have been approved by the Required Majority of the Affected Creditors Class;
  - (b) the Sanction Order shall have been granted in form and substance satisfactory to the Trustee and the Noteholder Committee;
  - (c) the Sanction Order shall have become a Final Order;
  - (d) the U.S. Bankruptcy Court shall have granted an Order recognizing and giving effect to the Sanction Order, in form and substance acceptable to the Noteholder Committee in its sole discretion, and it shall have become a Final Order;
  - (e) the Noteholder Committee shall be satisfied in its sole discretion with respect to the Reserves and the Aggregate Reserve Amount;
  - (f) the Additional Plan Consideration shall be in an amount acceptable to the Noteholder Committee; and
  - (g) all agreements or documents in respect of the Plan shall have been executed and be in form and substance acceptable to the Noteholder Committee.
113. With the exception of the conditions specified in (a) and (b), above, which cannot be waived by any person, the Noteholder Committee may, in its sole discretion, waive the fulfilment or satisfaction of the conditions to the implementation of the Plan.

**K. Reservation of Rights**

114. By its terms, nothing in the Meeting Order has the effect of determining: (a) whether the Plan complies with the CCAA; (b) whether any aspect or term of the Plan is fair and

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reasonable, or (c) the validity or quantum of any claims. Moreover, nothing in the Meeting Order prejudices the entitlement of any party to oppose a motion for sanction of the Plan.

**L. Illustrative Waterfalls**

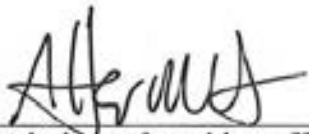
115. Exhibit “T” sets forth illustrative Waterfalls of distributions to stakeholders based on estimated amounts of Arbitration Proceeds available for distribution, including amounts that would be distributed to Affected Creditors pursuant to the Plan.
116. As noted above, I believe that the Plan is consistent with the Standstill Order, including the Waterfall Provision as incorporated therein.

**VI. CONCLUSION**

117. At the outset of this case, Crystallex justified its request for a stay of proceedings by arguing that a material recovery for creditors could only result from Crystallex successfully pursuing its arbitration claim against Venezuela, and emphasizing its intention to pay its creditors in full, including interest and a premium, were it to achieve that objective.
118. Some seven years later, Crystallex has finally managed to recover nearly \$500 million of Arbitration Proceeds from Venezuela. Despite this significant recovery, and despite its prior statements to this Court and the terms of the Standstill Order requiring it to distribute Arbitration Proceeds to Noteholders, Crystallex has taken no steps to pay amounts owing to its creditors.
119. In the circumstances, I believe it is appropriate for the Court to approve the filing of the proposed Plan and order a meeting of creditors to consider and vote on the Plan as a means of progressing this case for the benefit of all stakeholders, including the Noteholders and Crystallex’s other pre-filing creditors who have been waiting more than seven years to be repaid amounts due and owing to them.

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SWORN before me at the City of Toronto,  
in the Province of Ontario, on April 26,  
2019.



A Commissioner for taking affidavits

Name:

ANDREW HARMES



SCOTT REID

**EXHIBIT 15 TO THE  
CROSS-  
EXAMINATION  
OF S. REID**



## MANAGEMENT'S LETTER TO UNITHOLDERS

FOR THE SIX MONTHS ENDED JUNE 30, 2018



## NOTICE TO READER

The purpose of Ravensource's Management's Letter to Unitholders is to impart information and analysis to Ravensource's unitholders to allow a thorough understanding of their investment. This letter is a supplemental report to be read alongside the financial statements, Management Report on Fund Performance ("MRFP"), Annual Information Form ("AIF") and the Independent Review Committee ("IRC") report. You can get a copy of the aforementioned documents along with the Fund's proxy voting policies and procedures, proxy voting disclosure record, at your request, and at no cost, by calling (416) 250-2845, by writing to us at Stornoway Portfolio Management 30 St. Clair Avenue West, Suite 901, Toronto, ON M4V 3A1, by visiting our website at [www.ravensource.ca](http://www.ravensource.ca), or the SEDAR website at [www.sedar.com](http://www.sedar.com).

### A Note on Forward-Looking Statements

This document may contain forward-looking statements relating to anticipated future events, results, performance, decisions, circumstances, opportunities, risks or other matters. Forward-looking statements are statements that are predictive in nature requiring us to make assumptions and are subject to inherent risks and uncertainties. Our predictions and other forward-looking statements may not prove to be accurate, or a number of factors could cause actual events, results, performance, etc. to differ materially from the targets, expectations, estimates or intentions. These factors could include market and general economic conditions, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the fund may invest, and the risks detailed in the fund's Annual Information Form. Forward-looking statements are not guarantees of future performance. For these reasons, it is important that readers do not place undue reliance on our forward-looking statements and should be aware that the Fund may not update any forward-looking statements whether as a result of new information, future events or otherwise.

### About the Ravensource Fund

The Ravensource Fund is a closed-end investment trust whose units trade on the TSX under the symbol RAV.UN. The principal objective of Ravensource is to achieve absolute long-term returns through investing in out-of-favor and deep-value North American securities. Ravensource's investments fall primarily in three categories:

1. *High Yielding Securities*: investing in corporate debt, income fund units, or other securities that produce a sustainable high level of income for the underlying credit risk.
2. *Distressed Securities*: investing in corporate debt, creditor claims and/or equity securities of companies which are in, perceived to be in, or emerging from financial distress at a value materially different from what we believe to be the underlying fundamental value of the securities.
3. *Special Situations Equities*: investing primarily in Canadian and U.S. small and mid-cap equities that are not only attractively valued but also with catalysts to unlock value.

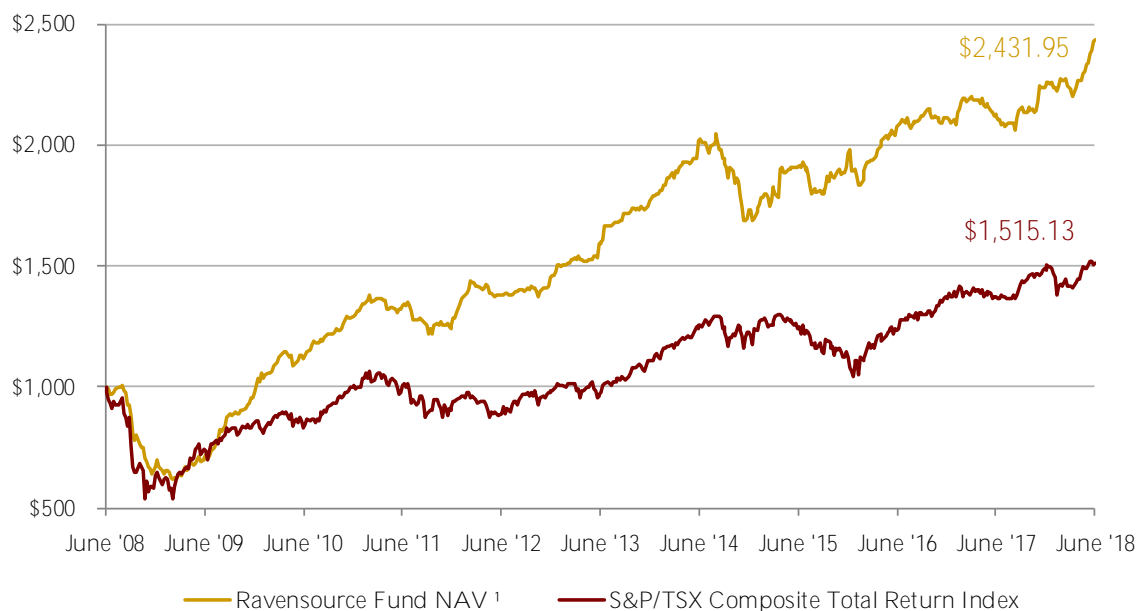
### About Stornoway Portfolio Management ("Stornoway")

Stornoway was appointed the Fund's Investment Manager on July 1, 2008 to execute Ravensource's investment strategy. Stornoway is a Toronto-based, employee-owned investment management firm focused on investing in distressed securities and other out of favor investment opportunities that withstand a thorough and disciplined analytical rigor prior to investing. The Stornoway Team is comprised of Brandon Moyse, Daniel Metrikin and Scott Reid on the investment side while Mahesh Shanmugam manages our operations and compliance duties. Our bios and our approach to investing can be found on the Ravensource website. In addition to Ravensource, Stornoway manages the Stornoway Recovery Fund LP, a limited partnership that invests in opportunities that arise from companies that are in or near financial distress.

Past investment performance by the Ravensource Fund is not indicative of future results and there cannot be any assurances that its investment objectives will be achieved. This letter is not a solicitation to invest.

## MANAGEMENT'S LETTER TO UNITHOLDERS

## Growth of \$1,000



(1) Based on net asset value per unit, assuming all distributions are reinvested in units at net asset value.

## Dear Fellow Investors,

We are pleased to report that Ravensource Fund's ("Ravensource" or "the Fund") net asset value ("NAV") per unit increased by 7.9% over the six months ended June 30, 2018 after factoring in the receipt of distributions.

2017 was a building block year for Ravensource in that we established more investments than at any equivalent period since we commenced managing the Fund in July 2008. While we uncovered a number of very compelling opportunities, admittedly, they generated little in the way of an immediate increase in the value of your Ravensource investment in 2017.

Over the first half of 2018, we have begun to see some of the fruits of those seeds planted in 2017 and in periods prior. Our investment philosophy extends beyond simply uncovering new investments and deciding when to buy or sell them like most mutual funds. Rather, we are actively involved with many of our underlying investee companies — often as a member of their board of directors or creditor committees — to help protect, create and capture the value that we recognized at the time of our investment. Many of these active investments contributed strongly to 2018's performance. However, we guide you to be patient with your Ravensource investment as our contrarian approach takes time — in most cases several years — and resolve to generate results on our portfolio of out-of-favor securities.

Our goal for this letter is simple: report to you in a frank and open way about the philosophy and approach that guides our investment decisions; the rationale for and changes in Ravensource's investments; the performance of the investments over the reporting period; and some of the risks to which Ravensource is exposed. We do so to help you better understand your Ravensource investment.

## Investment Performance

The investments that have made the most significant contributions — positively and negatively — to Ravensource's performance in the first half of 2018 are found in the table below:

Investment	Impact on Fund <sup>1</sup>
Specialty Foods Group	6.3%
Genworth Financial Inc.	2.8%
Crystallex International Corp. 9.375% due December 30, 2011	2.7%
Firm Capital American Realty Partners Corp.	0.7%
Spanish Broadcasting System Inc.	0.6%
Supremex Inc.	(0.8%)
GXI Acquisition Corp.	(1.8%)
Other <sup>2</sup>	0.0%
Pre-expense / Incentive Fee Investment Return	10.5%

<sup>1</sup> Increase in NAV due to investment's total return for the period

<sup>2</sup> Includes other asset investment returns

We would like to review some of these investments:

### *Specialty Foods Group ("SFG")*

SFG is a leading independent U.S. producer and marketer of premium branded and private-label processed meat products such as franks, hams, bacon, and luncheon meats through its operating facility based in Owensboro, Kentucky. We invested in SFG to allow the company to avert bankruptcy in June 2006. Shortly after our investment, I joined SFG's board of directors and worked hard with the other board members and new management team to stabilize and strengthen the company to enable it to again prosper.

Since our investment, the company converted its debt to equity, sold unprofitable subsidiaries, harvested the cash flow from its Nathan's Famous business, and built its Kentucky Legend brand into the #1 (and #1 tasting) smoked ham and turkey in the US. Not only are we very proud of these achievements, but we also profited handsomely from them. With SFG successfully restructured, its operations revitalized, and transactions in the food processing sector occurring at historically high valuations, it is a great time to sell our treasured investment.

Typical of our hands-on approach to investing, once the decision was made to put SFG up for sale, Brandon, Daniel, and myself became actively involved in readying it for market. We were a core part of the team that selected the investment banker; helped craft the marketing materials to best highlight the SFG opportunity; and coached the SFG team for the management presentations to interested buyers. In addition, SFG's Board, of which I am a member, accelerated a number of valuation creation projects to ensure the existing shareholders would be the beneficiaries.

By the end of June, multiple potential acquirers firmed up their interest in SFG, making the path to monetizing our investment more defined and tangible. In determining the market value of our SFG

investment, the Fund's third-party valuator applied an appropriate discount to these expressions of interest. As a result, the carrying value of our SFG position was increased as of June 30, 2018, making it the largest contributor to Ravensource's 2018 performance to date, and is likely to increase further in the event SFG is indeed sold.

*Genworth Financial Inc. ("Genworth")*

Genworth is a publicly listed (NYSE: GNW) U.S.-based company focused on the long-term care, mortgage, and traditional life insurance markets. In October 2016, the company agreed to be acquired by China Oceanwide Holdings ("China Oceanwide") for \$5.43 per share. However, the stock has since traded at a large discount to the acquisition price reflecting concerns the deal will not close. We purchased most of our position in February 2017 below \$3.75 per share. Our investment thesis was based on earning a 45% return if the transaction closes as advertised and our analysis that Genworth's mortgage insurance operations alone exceeds our purchase price if it doesn't.

On June 9, the single biggest regulatory roadblock was removed as the Committee on Foreign Investment in the United States ("CFIUS") gave its approval to the China Oceanwide transaction. Genworth's stock jumped on the announcement from the high \$3s to close at \$4.50 by June 30, 2018. While our Genworth position generated an attractive return for the Fund in the period, the remaining \$0.93 discount to the China Oceanwide acquisition price reflects the market's doubt the transaction will close.

Contrary to the market's assessment, we believe the deal will close as the remaining regulatory approvals should be routine and the CFIUS approval takes the decision out of Trump's hands. Ravensource will profit handsomely if the transaction is consummated, generating a further 21% return on our investment from Genworth's June 30, 2018, closing share price. In the event the transaction does not close, we believe the intrinsic value of Genworth's underlying businesses provides us with significant downside protection.

*Crystallex International Corp. ("Crystallex")*

Ravensource has a significant investment in Crystallex's 9.375% Senior Notes. We receive more calls from Ravensource investors on this investment than all others combined. Investors generally see Venezuela and panic or are willing to sell at any price. However, most of our investments — debt of bankrupt companies, for example — are counter-intuitive to most investors. Our contrarian approach emphasizes analytical rigor over emotion, providing us with the conviction necessary to pick up bargains that provide an attractive return if our analysis is correct and a margin-of-safety that helps protects us when we are wrong. Crystallex is a perfect example.

As a synopsis of our investment thesis, Venezuela owes Crystallex approximately U\$1.5bn from an International Centre for Settlement of Investment Disputes damages award (the "ICSID Award"). In turn, Crystallex owes its debtor-in-possession lenders approximately U\$120mm and its other class of creditors — of which the Senior Notes comprise more than 95% — over U\$250mm. As long as Crystallex receives at least U\$370mm, or just 25% of the amount it is owed, the Senior Notes will receive up to \$240 for each \$100 of par value of bonds. Under that scenario, Ravensource would earn a return in excess of 200% over and above the June 30<sup>th</sup>, 2018, market price of the Senior Notes.

In November 2017, Crystallex and Venezuela entered into a settlement agreement (the "Settlement Agreement") whereby Venezuela is required to make a series of payments to Crystallex while Crystallex is required to stand down on its legal actions to collect the ICSID Award. After paying Crystallex US\$43 million, Venezuela stopped making payments to Crystallex in April 2018, releasing Crystallex to go after Venezuela's assets.

The magic of an ICSID Award is its enforceability outside of Venezuela with the right to seize assets in the event of non-payment. Venezuela has significant assets in the U.S. and other jurisdictions that recognize ICSID judgments. Citgo Petroleum Corporation ("CITGO") — Venezuela's U.S.-based refiner, transporter and marketer of transportation fuels, petrochemicals and other industrial products — alone should be more than sufficient to fully repay the Senior Notes with plenty of leftovers. With CITGO now firmly in Crystallex's sights, a tipping point is potentially on the horizon that could have an extraordinary positive impact on the value of our Senior Note investment. We remain optimistic of the prospects on this truly esoteric investment.

*Firm Capital American Realty Partners Corp. ("FCA")*

FCA is a publicly listed Canadian company (TSXV: FCA.U) focused on partnership investing in U.S. income-producing, multi-family residential real estate properties. Most real estate companies are 'me-too' ventures clipping coupons from steady-state properties, leaving investors exposed to interest rate increases and providing little upside from asset-related value appreciation. In contrast, FCA seeks to create shareholder value by partnering in projects alongside local operators and implementing initiatives to enhance a project's cash flow and boost its market value.

Our investment in FCA's shares follows the tried and true Stornoway strategy: capitalizing on the bargain basement prices that arise when investors panic from a corporate crisis while partnering with management teams with the expertise to turn the company around. We invested in FCA out of the embers of a tiny, terribly managed company called Delavaco, a failed attempt to exploit the US real estate crash in 2008. Through the firm hand and vision of Eli Dadouch and his team at Firm Capital Corporation, supported by capital injections from Ravensource and others, Delavaco emerged from this turmoil as a strong FCA. In July 2016, I joined FCA's Board of Directors.

Since our investment, Eli and his team's achievements have been extraordinary as they established a disciplined infrastructure; de-risked FCA's balance sheet; and pivoted the portfolio away from Delavaco's single-family homes in challenging neighbourhoods to invest in multi-family buildings in improving areas. These initiatives have materially increased the company's cash flow and intrinsic value. While we realize it will take time and sustained results for the market to recognize – and pay for – what the FCA team has accomplished, we remain very optimistic on the continued appreciation of FCA's book value and share price.

*Spanish Broadcasting System, Inc. ("Spanish Broadcasting")*

Spanish Broadcasting is a publicly listed (OTC: SBSAA) U.S.-based national broadcaster of Hispanic-centered entertainment, primarily operating a network of radio stations in major cities in the US including the #1 rated Spanish language radio station in America. In June 2017, Ravensource invested in Spanish Broadcasting's Series B Preferred Shares. Our investment thesis is that the

company's radio assets are indeed very valuable but are wrapped within a morass of issues that weaken the company and inhibit it from capitalizing on the opportunities in front of them. If these issues are resolved – likely through a financial restructuring – we believe that the market value of the company and our preferred shares along with it will go up. If it was only that simple.

At the heart of the issues lies Spanish Broadcasting's tangled capital structure whereby divergent interests among the three key stakeholders dominate the state of play:

- At the top of the food chain are the Secured Notes which the company failed to repay on their April 2017 maturity date. In normal circumstances, the Secured Noteholders would demand repayment and the company would file for Chapter 11 / insolvency protection if this requirement is not met. To avoid the inevitable loss of shareholder control that would follow, the company is renting the Secured Noteholders' inaction by making what we believe are illicit 12.5% interest payments that are well-above the market rate. These payments are akin to 'blood money' as they milk the company of its free cash flow and exist only to allow the shareholders to remain in power. However, the Secured Noteholders will eventually demand their money back.
- Next in line, the Preferred Shareholders' objective is to normalize the capital structure and properly align the true economic ownership with the command and control of the company. In doing so, the company would be able to secure long-term debt from traditional sources, thereby increasing its free cash flow and putting it in a position of strength to capitalize on commercial opportunities it cannot presently take advantage of. This can be achieved by a consensual or contested restructuring.
- At the bottom lie the shareholders. The company's CEO and son of the founder owns the preponderance of the economic and voting interest in the out-of-the-money common shares. In a typical restructuring, the shareholders would likely be wiped out as we believe the value of the company is less than the amounts owed to the Secured Notes and Preferred Shares that rank ahead of the equity. He is likely fiercely opposed to a restructuring as through it he will potentially lose his economic stake and possibly his lucrative annual compensation that currently exceeds the entire market value of the company's shares. It should be no surprise that his efforts are focused on maintaining the status quo.

We are cognizant that achieving an appropriate restructuring is challenging and will mean nothing if the economic value of our investment is in doubt. Operationally, Spanish Broadcasting continues to perform well, reporting a 50% year-over-year increase in Adjusted EBITDA in the first half of 2018. As we were able to purchase our preferred share position at a meaningful discount to its intrinsic value compounded by the company's strong operating performance, we remain highly confident in ultimately profiting from the value lying dormant in the preferred shares.

#### *GXI Acquisition Corp. ("GXI")*

GXI is a Canadian private company that was formed in September 2016 to purchase Guestlogix Inc. ("Guestlogix") out of insolvency. Guestlogix, a former public company headquartered in Toronto,

provides point-of-sale platforms specifically engineered to drive ancillary revenue for the airline industry while enhancing the on-board experience for their passengers. Ravensource's partners in GXI are the Stornoway Recovery Fund LP along with two successful investors who have proven track records of leading and investing in growth-oriented technology and consumer companies.

Our experience to date with GXI is typical for Stornoway in that the path to creating value on our investments is rarely smooth. While we successfully implemented the restructuring plan to stabilize the business, the revitalization phase since then is taking longer and has proven to be more challenging. Although Guestlogix has retained the bulk of its clients, others have left, partially due to a hangover from its bout with insolvency. It is rare that a company comes out of insolvency protection unscathed. We admittedly also made mistakes, the largest being our choice of CEO which we cured by parting ways with him in March. Accordingly, the third-party valuator reduced the carrying value of our GXI investment.

To counter these headwinds, the Guestlogix team has upped their game by evolving its core platform to recapture market-leading status. It is also launching a passenger mobile application with the potential to transform the air travel experience for travelers in a very meaningful way, which greatly expands the market opportunity beyond our initial thesis. Early indications are very encouraging as the company has begun to sign up new customers. We remain cautiously optimistic that we will be ultimately rewarded on our investment.

## Relative Performance

The Fund's objective is to produce significant long-term returns for its investors regardless of market conditions. This is called "absolute" performance and the first part of this letter outlined the Fund's investments that have contributed to — or detracted from — attaining this objective.

While generating attractive, long-term results is our mission, we realize that you will likely want to measure our performance relative to other investment vehicles or benchmarks. To help facilitate this process, we have identified several indices — see Appendix 1 for their descriptions — that we believe are appropriate in assessing Ravensource's "relative" performance. Unfortunately, given the truly idiosyncratic nature of the Fund's investment strategy, we have not uncovered an index that sufficiently resembles the Fund to the degree it should be considered / used as a benchmark.

The table below outlines the historical performance of Ravensource and the various indices. Please note that all returns are calculated on a total return basis and only reflect the Fund's performance since Stornoway became Ravensource's Investment Manager in July 2008.

As at June 30, 2018	YTD 2018 <sup>(2)</sup>	Return Since July 1, 2018				
		1 Year	3 Years	5 Years	Annual	Total <sup>(2)</sup>
Ravensource Fund NAV <sup>(1)</sup>	7.9%	14.8%	8.4%	8.8%	9.3%	143.2%
S&P/TSX Composite Total Return Index	1.9%	10.4%	7.0%	9.2%	4.2%	51.5%
S&P/TSX Small Cap Total Return Index	(1.7%)	5.4%	6.3%	6.5%	2.3%	25.0%
ICE BofAML US High Yield Index <sup>(3)</sup>	4.5%	3.9%	7.3%	10.3%	10.8%	178.5%
Credit Suisse Distressed Hedge Fund Index <sup>(3)</sup>	5.4%	5.5%	4.7%	8.4%	6.7%	91.9%

(1) Based on net asset value per unit, assuming all distributions are reinvested in units at net asset value.

(2) Un-annualized return

(3) Translated into Canadian dollars

As seen in the table above our absolute returns in the first half of 2018 outperformed all of the indices we use to measure the Fund's relative performance.

While the Fund's short-term results are encouraging, we believe that investment performance is more appropriately judged over a longer time horizon as it reveals whether the investment process is repeatable and how it weathers the ups and the downs of the market. In addition, that approach is consistent with our objective to create long term capital appreciation for our investors and the 2- to 4-year period it typically takes the market to recognize the value we did at the time of investment.

For periods exceeding one year, Ravensource's performance remains at or close to the top of the table. Since Stornoway began managing Ravensource in July 2008, the Fund's NAV per unit has increased by 143.2% in total and 9.3% on an annualized basis, including re-invested distributions. By comparison, the S&P/TSX Composite Total Return Index has increased by 51.5% in total / 4.2% annualized over the same time period.

## Fund Liquidity and Investment Activity

### *Liquidity*

Starting 2018 with 6% of the Fund's net assets in net cash, our liquidity grew to 13% by June 30, 2018, as investment divestitures outpaced purchases and other cash uses. The purpose of reporting the Fund's net cash position is to quantify the gunpowder the Fund can deploy to either opportunistically add to our existing positions or to establish new ones. In addition, the change in net cash can be viewed as a barometer of our investment activities in that it will capture whether the Fund is a net buyer or seller during the period.

The sources and uses of the Fund's net cash during the period are outlined below:

	Amount	per Unit	% of NAV <sup>(1)</sup>
<i>Sources</i>			
Investment Divestitures	3,403,796	2.03	12.7%
Foreign Exchange on Cash	(173,642)	(0.10)	(0.6%)
Dividends and Interest	279,299	0.17	1.0%
Total	3,509,453	2.10	13.1%
<i>Uses</i>			
Investment Purchases	741,085	0.44	2.8%
Expenses	635,216	0.38	2.4%
Distributions to Unitholders	250,931	0.15	0.9%
Total	1,627,232	0.97	6.1%
Change in Net Cash	1,882,221	1.13	7.0%

(1) % of June 30, 2018 NAV

### *Investment Purchases*

During the first half of 2018, we made add-on purchases to our ownership of Flow Capital Corp. debentures while establishing a new position in another part of Spanish Broadcasting System Inc.'s capital structure.



*Flow Capital Corp. ("Flow Capital")*

In March 2018, Grenville Strategic Royalty Corp. ("Grenville") announced it had agreed to acquire LOGiQ Asset Management ("LOGiQ") via a reverse takeover and rename the entity to Flow Capital. LOGiQ is a fee-based third-party marketer of investment funds that generates around \$2 million of annual cash flow with approximately \$4.5 million cash on hand. On the June 5, 2018, close of the transaction, the credit quality of our existing bond position significantly improved as the assets backing our bonds now included LOGiQ's cash and operating business in addition to Grenville's royalty portfolio. Given the significant positive developments to our now Flow Senior Bonds, we were active in the markets increasing our position at a yield in excess of 24%.

*Spanish Broadcasting System, Inc. ("Spanish Broadcasting")*

During the first half of 2018, we acquired a strategic position in Spanish Broadcasting's Secured Notes. Despite being outstanding past their maturity date, the Secured Notes continue to receive the well-above-market 12.5% interest payments — the aforementioned 'blood money' — and are well-protected by Spanish Broadcasting's assets and operating cash flow. Investment rationale aside, the tactical benefit of the Preferred Shareholders owning a significant stake of the Secured Notes cannot be overstated. In the event that the Preferred Shareholders collectively own in excess of 25% of the Secured Notes outstanding, they can force the company to come to the negotiating table or face the consequences of a Chapter 11 filing. Either outcome, we believe, will eventually result in a properly reorganized company and increase the market value of our preferred shares.

*Divestitures*

The only divestiture during the period was the sale of our entire position in NAPEC Inc.

*NAPEC Inc. ("NAPEC")*

As we wrote in our year-end letter, NAPEC had agreed to be acquired by Oaktree in December 2017 at \$1.95 per share. We supported the Oaktree transaction as it met our long-term valuation of the company; however, the Fund sold its position at \$1.94 per share in the open market in the days prior to the vote rather than tendering into Oaktree's \$1.95 bid. The decision to sell was based on the desire to eliminate the risk of shareholders voting down Oaktree's proposal, which could have caused the shares to fall back down to their \$1.25 pre-announcement trading price. Over the approximate four years that Ravensource owned the position, the NAPEC investment generated a 27% annualized compounded return.

*Distributions*

Ravensource's distribution policy is to make semi-annual distributions to unitholders in an amount to ensure that it does not incur any tax while providing a reasonable yield. Total distributions for the six months ended June 30, 2018 amounted to \$0.15 per unit, equal to December's distribution but down from \$0.22 in the comparable period in 2017. The annualized yield on Fund units was 2.15% over the first 6 months of 2018 assuming one invested at the closing market price of \$14.01 on December 31, 2017.

## Operating Expenses

RavenSource's operating expenses include investment management fees, trustee fees, TSX listing fees, interest and borrowing costs, accounting and audit expenses, IRC costs, legal and professional expenses, transaction costs and other sundry operating expenses. The table below shows how these expenses reduce the Fund's gross return on investment to arrive at the Fund's net investment return. Please note, operating expenses as expressed below is not to be confused with the Management Expense Ratio ("MER"). For details regarding the Fund's MER, please refer to the Management Report on Fund Performance.

	June 30, 2018	June 30, 2017	YoY Change
Pre-expense / Incentive Fee Investment Return	10.50%	1.30%	
Less:			
Management, administrative and IR fees	0.35%	0.33%	0.02%
Audit and accounting fees	0.11%	0.10%	0.01%
Legal fees	0.15%	0.18%	(0.03%)
Interest expense	0.16%	0.12%	0.04%
Trust administration and transfer agency fees	0.03%	0.04%	(0.01%)
Listing fees	0.05%	0.04%	0.01%
Independent review committee fees	0.05%	0.01%	0.04%
Transaction costs	0.08%	0.03%	0.05%
Other operating expenses	0.04%	0.07%	(0.03%)
Total Expenses Before Incentive Fee	1.02%	0.92%	0.10%
Pre-Incentive Fee Investment Return	9.48%	0.38%	
Less:			
Incentive Fee	1.58%	0.00%	
RavenSource Fund Net Investment Return	7.90%	0.38%	

For the first six months of 2018, RavenSource's operating expenses, excluding the incentive fee, was 1.02%, slightly higher than the comparable period in 2017. To be consistent with investment performance, year-to-date expenses have not been annualized. The increase in operating expenses was primarily the result of a period-over-period increase in security transaction costs (5 basis points), independent review committee fees (4 basis points) and interest expense (4 basis points), partially offset by a decrease in legal fees (3 basis points) and other sundry operating expenses (3 basis points).

## Incentive Fee

As detailed in the Portfolio Management Agreement, the Investment Manager is entitled to an incentive fee equal to 20% of the amount by which the net asset value per unit at the end of the year, adjusted for contributions, distributions, and redemptions during the year, exceeds the net asset value per unit at the beginning of the year by more than 5%, plus any shortfalls from prior years (the "Incentive Fee").

The Incentive Fee accrued for the six months ended June 30, 2018 amounted to 1.58% of average net assets, versus nil% for the comparable period in 2017. The increase in incentive fee is somewhat of a high-class issue for investors as it is a direct result of the increase in value of their investment in Fund units. This correlation between the Incentive Fee and the Fund's performance highlights the alignment of our interests with those of Ravensource's investors.

## Risks

At the time of investment and throughout the period we own a security, we take particular care in assessing its risk and impact on the portfolio. A key risk management tool is that we purchase securities at prices substantially below what we have conservatively determined as their intrinsic value and often become actively involved to ensure that our rights and recoveries are upheld. However, despite our thorough analysis and involvement, sometimes we are just wrong or the potential of a given investment does not materialize thus exposing our investors to a loss of capital.

In addition to the risks specific to a particular investment, the Fund is exposed to changes in foreign exchange rates, interest rates, credit conditions and other economic factors as described in the Annual Information Form, on the Ravensource website and in the notes attached to our financial statements. We encourage all investors to carefully read the Fund's financial statements, including the additional disclosure in the notes to the financial statements, as we do prior to investing.

There has been no change in the Fund's stated investment strategy or other changes that would materially affect the risk of investing in Ravensource in 2018. We continue to believe the Fund is suitable for those investors seeking long-term capital growth, have a long-term investment horizon, and possess a medium to high risk tolerance to withstand the ups and downs that go along with investing in out-of-favor securities.

To give you a better understanding of the risks that Ravensource is exposed to, we have broken out the portfolio by investment strategy, enterprise value, industrial grouping and concentration.

## Portfolio Composition

### *Investment Portfolio by Strategy*

Over the first half of 2018, there was a shift in the Fund's investment portfolio from Special Situation Equities to Distressed Securities. This was primarily the result of the sale of NAPEC's common shares and our deepening position in Spanish Broadcasting. Consistent with prior years, the Fund had no investments in High Yielding Securities. We do not target specific strategy weightings; rather we select the most attractive investment opportunities wherever they are found.

By Investment Strategy	% of Investment Portfolio	
	30-Jun-18	31-Dec-17
Special Situation Equities	36.4%	47.9%
Distressed Securities	63.6%	52.1%
High Yielding Securities	0.0%	0.0%
Total	100.0%	100.0%

### *Investment Portfolio by Industrial Group*

While Ravensource does not specialize in specific industries, our experience and investment philosophy lead us to focus on companies with hard assets. We like to invest in companies in which we understand the products/services they offer and more importantly have a strong grasp of the business model and its tangible asset value. Thus, it should not come as a surprise to see more traditional industries favored in our portfolio, which is more of an outcome of our investment process than a pre-ordained allocation. Further, our emphasis on an investment's margin of safety generally results in avoiding the more sensitive sectors of the economy.

By Industrial Group	% of Portfolio
Food & Beverage	24.6%
Financial	19.4%
Metals & Mining	15.7%
Real Estate	15.6%
Media & Publishing	13.2%
Energy	3.4%
Technology	3.1%
Retail	2.6%
Industrial	2.5%
Total	100%

### *Concentration*

We believe that the most effective method to reduce/manage risk is to know your investments inside and out. Thus, one of the Fund's biggest investments is the time it takes the team to uncover, protect and maximize the value of our investments, which means Ravensource may be a more concentrated portfolio than other investment funds. As of June 30, 2018, the Fund had seven investments exceeding 5% of NAV. Excluding cash, the top 10 investments ranked by market value represented 72.3% of NAV as of June 30, 2018. We expect that the Fund will continue to maintain its exposure in positions that we know the best and where we hold the strongest convictions.

### *Skin-in-the-Game*

The Stornoway Team is passionate about the approach and philosophy that drives our investment decisions, our active involvement in the companies we invest in, and the steps we take to reduce risk and generate investment returns. One of our core tenets is that we treat our fellow investors as partners. We firmly believe that an investment manager should have "skin in the game", sharing in the risk and reward of our decisions alongside other investors. Each member of the Stornoway Team has a substantial personal investment in Ravensource and as of June 30, 2018, I owned approximately 9.9% of the total units of Ravensource outstanding. In short, we eat our own cooking.

### *Concluding Remarks*

The first half of 2018 was a very productive period: we readied SFG for market; ramped up the turnaround of GXI; participated in the revitalization of Firm Capital America; and helped craft the strategy to restructure Spanish Broadcasting. Some of these initiatives generated tangible results this period, while others are a work-in-progress with expected rewards on the come.

Looking forward, our portfolio represents a healthy balance of investments diversified across the investment lifecycle. We have newer positions that are net consumers of both financial and intellectual capital; mid-stream companies that have been stabilized and are ready to prosper; and mature investments that we expect to be crystallized in the near future, providing us fresh capital to sow and begin the process anew.

In writing this review, we wrestle with the twin objectives of being thorough yet succinct. We recognize that despite our effort to cut to the essentials, there remains a lot of information to digest. As always, we are available via phone and/or in person to discuss your investment further. Please don't hesitate to contact us. We always look forward to hearing from unitholders and enjoy discussing our investments and strategy with you.

On behalf of Brandon, Daniel, Mahesh and myself, we greatly appreciate the partnership, trust and long-term perspective of our fellow investors, aka you. We are dedicated to protecting and growing your capital for years to come.

We are appreciative of your partnership and trust.

August 2018



Scott Reid  
President and Chief Investment Officer  
Stornoway Portfolio Management Inc.  
Investment Manager of the Ravensource Fund

## Appendix 1 - Ravensource's Use of Comparable Indices

Given the idiosyncratic nature of the Fund's investment strategy, the Investment Manager does not believe there is an index that sufficiently resembles the Fund to the degree it should be considered or used as a "benchmark". However, the Investment Manager provides historical performance data for several indices in addition to the results of the Fund for comparison purposes. The Investment Manager has chosen indices that it believes are relevant to the investment mandate of the Fund and / or to capital markets in general. However, while each of these indices overlap with certain aspects of the Fund's mandate, none of them share significant similarities with the Fund's investment portfolio:

- The S&P/TSX Composite Total Return Index ("S&P/TSX") is the principal broad-based measure commonly accepted by investors to measure the performance of Canadian equity markets. The S&P/TSX is a relevant index for comparison purposes as the Fund's investment portfolio contains Canadian equity investments and the Fund's debt investments are frequently converted into equity securities as part of the restructuring process. However, the performance of the S&P/TSX will vary greatly from the Fund as its investment portfolio is primarily comprised of securities that are not included in the S&P/TSX.
- The S&P/TSX Small Cap Total Return Index ("TSX Small Cap") tracks the performance of the Canadian small cap equity market. The TSX Small Cap is a relevant index for comparison purposes as the Fund invests in Canadian small cap companies that are attractively valued with catalysts to unlock value. However, the performance of the TSX Small Cap will vary greatly from the Fund as its investment portfolio is primarily comprised of securities that are not included in the TSX Small Cap.
- The ICE BofAML US High Yield Index ("BAMLHY") tracks the performance of USD-denominated, sub-investment grade rated corporate debt. BAMLHY is a relevant index for comparison purposes as the Fund invests in corporate debt securities that are rated below investment grade. However, the Fund's investment portfolio also includes defaulted debt and equity securities which are not included in the BAMLHY and thus the Fund's performance may vary greatly from BAMLHY.
- The Credit Suisse Distressed Hedge Fund Index ("CSDHFI") tracks the aggregate performance of investment funds that focus on investing in companies that are subject to financial or operational distress or bankruptcy proceedings. The CSDHFI is a relevant index for comparison purposes as the Fund's investment mandate broadly overlaps that of the funds that make up the CSDHFI. However, it is likely that the composition of the Fund's investment portfolio is unique from these peers and thus the Fund's performance may vary greatly from the CSDHFI.

As the Fund makes idiosyncratic investments in securities which are overlooked by the capital markets, the Fund's investment portfolio contains investments that are not likely included in any of the above indices and thus an investment in the Fund should not be considered a substitute or proxy for the underlying index. For the reasons stated above, these indices should not be considered a benchmark for the Fund and there can be no assurance that any historical correlation or relationship will continue in the future. As the CSDHFI and BAMLHY indices are reported in USD while the Fund reports in CAD, the Manager translates the CSDHFI and BAMLHY into CAD using the prevailing foreign exchange rate as of the date of each observation.



**EXHIBIT 16 TO THE  
CROSS-  
EXAMINATION  
OF S. REID**



Financial Statements of

## **RAVENSOURCE FUND**

Years ended December 31, 2014 and 2013

# RAVENSOURCE FUND

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Years ended December 31, 2014 and 2013

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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Ravensource Fund

We have audited the accompanying financial statements of Ravensource Fund, which comprise the statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years ended December 31, 2014 and December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ravensource Fund as at December 31, 2014, December 31, 2013 and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

March 3, 2015  
Toronto, Canada

# RAVENSOURCE FUND

## Statements of Financial Position

December 31, 2014, December 31, 2013 and January 1, 2013

	December 31, 2014	December 31, 2013	January 1, 2013
<b>Assets</b>			
Cash and cash equivalents	\$ 4,439,683	\$ 6,771,779	\$ 5,742,836
Financial assets designated at fair value through profit or loss (cost - \$15,094,269; December 31, 2013 - \$13,165,644; January 1, 2013 - \$12,865,695) (note 3(a) and (b))	16,217,213	13,509,610	11,964,794
Financial assets held for trading (cost - nil; December 31, 2013 - \$271,967; January 1, 2013 - \$271,967) (note 3(a) and (b))	2,325	2,554,733	793,815
Interest and dividends receivable	82,271	53,686	40,892
	20,741,492	22,889,808	18,542,337
<b>Liabilities</b>			
Accounts payable and accrued liabilities	60,253	54,238	66,743
Management and administrative fees payable (note 4(b) and (c))	31,325	44,227	-
Incentive fees payable (note 4(d))	10,038	891,886	131,117
	101,616	990,351	197,860
Net assets attributable to holders of redeemable units	\$ 20,639,876	\$ 21,899,457	\$ 18,344,477
Number of redeemable units outstanding (note 6)	1,676,270	1,700,470	1,700,470
Net assets attributable to holders of redeemable units per unit (note 5)	\$ 12.31	\$ 12.88	\$ 10.79

See accompanying notes to financial statements.

Approved on behalf of the Trust:



Investment Manager

Stomoway Portfolio Management Inc.

# RAVENSOURCE FUND

## Statements of Comprehensive Income

Years ended December 31, 2014 and 2013

	2014	2013
<b>Income:</b>		
Interest income for distribution purposes	\$ 365,971	\$ 309,626
Dividends and income trust distributions	270,594	234,317
	636,565	543,943
<b>Net changes in fair value on financial assets at fair value through profit or loss (note 11):</b>		
Net realized gain on financial assets, including foreign exchange adjustments	773,994	1,632,007
Net change in unrealized gain (loss) on financial assets	(1,477,028)	3,006,941
	(703,034)	4,638,948
	(66,469)	5,182,891
<b>Expenses:</b>		
Management fees (note 4(b))	170,232	147,876
Administrative fees (note 4(c))	91,663	79,626
Impact of management and administrative fee reductions (note 4(a))	(116,703)	(103,960)
Incentive fee (note 4(d))	11,343	891,886
Investor relations fees (note 4(e))	13,560	13,560
Legal fees	31,992	76,237
Accounting fees	24,408	21,696
Trust administration and transfer agency fees	23,504	23,612
Audit fees	23,220	23,205
Listing fees	19,197	19,925
Other expenses	14,919	12,374
Independent review committee fees	7,600	7,600
Transaction costs	21,156	6,161
	336,091	1,219,798
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$ (402,560)</b>	<b>\$ 3,963,093</b>
<b>Average number of units outstanding</b>	<b>1,884,084</b>	<b>1,700,470</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit</b>	<b>\$ (0.24)</b>	<b>\$ 2.33</b>

See accompanying notes to financial statements.

## RAVENSOURCE FUND

### Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

Years ended December 31, 2014 and 2013

	2014	2013
Net assets attributable to holders of redeemable units, beginning of year	\$ 21,899,457	\$ 18,344,477
Increase (decrease) in net assets attributable to holders of redeemable units	(402,560)	3,963,093
Capital transactions:		
Units tendered for redemption (note 5(c))	(350,510)	(948,945)
Recirculation of units tendered for redemption (note 5(c))	—	948,945
Distributions to holders of redeemable units (note 5(d))	(506,511)	(408,113)
	(857,021)	(408,113)
Net assets attributable to holders of redeemable units, end of year	\$ 20,639,876	\$ 21,899,457

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flow from operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (402,560)	\$ 3,963,093
Adjustments for non-cash items:		
Net realized gain on investment transactions	(773,994)	(1,632,007)
Change in unrealized appreciation (depreciation) in value of investments	1,477,028	(3,006,941)
Change in non-cash balances:		
Increase in interest and dividends receivable	(28,585)	(12,794)
Increase (decrease) in accounts payable and accrued liabilities	6,015	(12,505)
Increase (decrease) in incentive, management and administrative fees payable	(894,750)	804,996
Proceeds from sale of investments	6,539,145	4,258,826
Purchase of investments	(7,419,666)	(2,969,638)
Net cash flow from (used in) operating activities	(1,497,367)	1,393,030
Cash flow from financing activities:		
Redemptions of redeemable units	(350,510)	—
Distributions paid to holders of redeemable units, net of reinvested distributions	(506,511)	(408,113)
Net cash flow used in financing activities	(857,021)	(408,113)
Increase (decrease) in cash and cash equivalents	(2,354,388)	984,917
Foreign exchange gain on cash	22,292	44,026
Cash and cash equivalents, beginning of year	6,771,779	5,742,836
Cash and cash equivalents, end of year	\$ 4,439,683	\$ 6,771,779
Supplemental information:		
Interest received	\$ 411,386	\$ 313,750
Dividends received	253,763	242,986

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Schedule of Investments

December 31, 2014

Number of shares/units	Investments, owned	Average cost	Fair value	Fair value % of net assets
Canadian equities:				
47,700	Canwel Holdings Corp.	\$ 341,059	\$ 282,881	1.37
228,100	Chinook Energy Inc.	478,156	287,406	1.39
1,000	Crystalllex International Corp.	90	82	—
40,000	Fiera Capital Corp.	173,300	504,400	2.44
140,375	Glacier Media Inc.	368,989	210,583	1.02
21,100	GVIC Comm - Class B	17,091	6,330	0.03
22,500	GVIC Comm - Class C	18,045	5,625	0.03
8,800	Indigo Books & Music Inc.	44,875	103,400	0.50
240,000	Kicking Horse Energy Inc.	983,890	751,200	3.64
2,352,500	Melior Resources Inc.	270,585	211,725	1.03
1,000,000	NAPEC Inc.	881,250	890,000	4.31
655,000	Northern Frontier Corp.	1,187,071	248,900	1.21
58,400	NuVista Energy Ltd.	312,183	428,072	2.07
100,000	Ovivo Inc.	276,500	214,000	1.04
248,033	PlazaCorp Retail Properties Ltd.	297,640	1,004,534	4.87
174,200	Supremex Inc.	396,824	543,504	2.63
83,900	Ten Peaks Coffee Company Inc.	237,487	366,643	1.78
28,000	Tuckamore Capital Management Inc.	20,440	17,640	0.09
45,400	Winpak Ltd.	295,252	1,509,550	7.31
		6,600,527	7,586,435	36.76
U.S. equities:				
75,000	Genworth Financial Inc.	441,137	739,563	3.59
13,157	Quad Graphics	595,635	350,448	1.70
1,323,256	SeaCo Ltd.	—	307	—
58	Specialty Foods Group	239,967	3,622,844	17.55
		1,276,739	4,713,162	22.84



# RAVENSOURCE FUND

Schedule of Investments (continued)

December 31, 2014

Number of shares/units	Investments, owned	Average cost	Fair value	Fair value % of net assets
<b>Fixed income:</b>				
244,000	Anderson Energy Ltd. 7.50%, due January 31, 2016	185,817	165,920	0.80
16,000	Anderson Energy Ltd. 7.25%, due June 30, 2017	9,780	8,480	0.04
317,000	Arcan Resources Ltd. 6.25%, due February 28, 2016	196,186	129,970	0.63
3,081,000	Arcan Resources Ltd. 6.50%, due October 31, 2018	2,027,474	1,232,400	5.97
300,000	Connacher Oil & Gas Ltd. 8.75%, due August 1, 2018	223,500	105,000	0.51
3,350,000	Crystallex International Corp. 9.375%, due December 30, 2011*	1,688,454	1,943,168	9.41
1,000,000	Delphi Holdings Corp. 6.55%, due June 15, 2006*	732,498	40,603	0.20
1,043,000	Exall Energy Corp. 7.75%, due March 31, 2017	352,036	73,010	0.35
9,000	Gasfrac Energy Services Inc. 7.00%, due February 28, 2017	6,311	2,723	0.01
4,284,000	Ivanhoe Energy Inc. 5.75%, due June 30, 2016*	1,776,834	216,342	1.05
		7,198,890	3,917,616	18.97
<b>Warrants and options:</b>				
465,000	Northern Frontier Corp. \$3.40	—	2,325	0.01
<b>Net investments owned</b>		15,076,156	16,219,538	78.58
<b>Brokerage commissions</b>		18,113	—	—
<b>Total portfolio of investments</b>		\$ 15,094,269	16,219,538	78.58
<b>Other net assets</b>			4,420,338	21.42
<b>Net assets</b>			\$ 20,639,876	100.00

\*Defaulted

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Notes to Financial Statements

Years ended December 31, 2014 and 2013

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### 1. Trust organization and nature of operations:

The Ravensource Fund (the "Trust") is a closed-end investment trust which was created under the laws of the Province of Ontario pursuant to a declaration of trust, dated April 28, 1997, as amended January 15, 2001 and as further amended and restated as at August 22, 2003 and as at July 1, 2008 (the "Declaration of Trust"). The Trust's units are listed on the Toronto Stock Exchange (RAV.UN).

Computershare Trust Company of Canada acts as trustee for the Trust (the "Trustee"). At a special meeting of the Trust's unitholders, Stornoway Portfolio Management Inc., an Ontario corporation, was appointed as the investment manager ("Investment Manager") of the Trust, effective July 1, 2008. The Trust's principal place of business is located at 30 St. Clair Avenue West, Suite 901, Toronto, Ontario, M4V 3A1.

The Investment Manager provides portfolio management and administrative services to the Trust, subject to the overall supervision of the Trustee. The Investment Manager is authorized to invest the Trust's assets and make investment decisions on behalf of the Trust. Senior executives of the Investment Manager own 187,153 (2013 - 185,753) units, representing 11.2% (2013 - 10.9%) of the outstanding units as at December 31, 2014.

The capital of the Trust is represented by the net asset attributable to holders of redeemable units of the Trust, and is comprised of investments, and cash and cash equivalents offset by liabilities of the Trust. As more fully outlined in the Declaration of Trust, the principal investment objective of the Trust is to achieve absolute annual returns, with an emphasis on capital gains, through investment in selected North American securities. The Trust will invest its property primarily in North American high yield and distressed debt securities, and in equity securities. The success of the Trust depends on the investment decisions of the Investment Manager and will be influenced by a number of risk factors including liquidity risk, market risk, investment in options, and leverage from borrowed funds.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

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## 2. Basis of presentation and adoption of IFRS:

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), including IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"). The Trust adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Trust prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the Chartered Professional Accountants of Canada Handbook ("Canadian GAAP"). The comparative information has been restated from Canadian GAAP to comply with IFRS. The Trust has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 14 discloses the impact of the transition to IFRS on the Trust's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Trust's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

The policies applied in these financial statements are based on IFRS issued and outstanding as of March 3, 2015, which is the date on which the financial statements were authorized for issue by the Investment Manager.

## 3. Significant accounting policies:

Accounting standard issued but not yet adopted:

The following new standard and amendments to existing standards were issued by the International Accounting Standards Board:

In November 2009, IFRS 9, Financial Instruments ("IFRS 9"), was issued and subsequently amended in October 2010. This is the first phase of the project on classification and measurement of financial assets and liabilities. IFRS 9 will replace International Accounting Standard ("IAS") 39, Financial Instruments - Recognition and Measurement, and will be completed in three phases, which includes limited amendments to classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. Accounting for macro hedging was removed from IFRS 9 and is expected to be issued as a separate standard. The effective date of IFRS 9 is January 1, 2018. The standard on general hedge accounting was issued and included as part of IFRS 9 in November 2013. The Investment Manager is currently assessing the impact of the adoption of these amendments on the financial statements.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

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### 3. Significant accounting policies (continued):

The following is a summary of the significant accounting policies followed by the Trust:

#### (a) Valuation of Investments:

Securities listed upon a recognized public stock exchange are valued at their bid prices on the valuation dates. In a situation where, in the opinion of the Investment Manager, a market quotation for a security is inaccurate, unreliable, or not readily available, the fair value of the security is estimated using valuation techniques generally used in the industry. These techniques take into account market factors, valuation of similar securities, and interest rates.

Short-term notes, treasury bills, bonds, asset backed securities and other debt instruments traded in over-the-counter markets are valued at bid quotations provided by recognized investment dealers.

Securities not listed upon a recognized public stock exchange or not traded in over-the-counter markets are valued using valuation techniques which take into account market factors, valuation of similar securities and interest rates.

#### (b) Classification:

The Trust classifies its investments in debt and equity securities and derivatives as financial assets and financial liabilities at fair value through profit or loss.

This category has two sub-categories: financial assets or financial liabilities held for trading; and those designated at fair value through profit or loss at inception ("FVTPL").

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

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## 3. Significant accounting policies (continued):

### (i) Financial assets and financial liabilities held for trading:

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives, including warrants and options, are categorized as held for trading regardless of the Trust's intention to hold the security for a prolonged period of time. The Trust does not classify any derivatives as hedges in a hedging relationship.

### (ii) Financial assets and financial liabilities designated at FVTPL:

Financial assets and financial liabilities classified as FVTPL are financial instruments that are not classified as held for trading and their performance is evaluated on a fair value basis in accordance with the Trust's documented investment strategy.

The Trust recognizes financial instruments at fair value. Purchases and sales of financial assets are recognized at their trade date. Aside from its holdings of warrants and other derivative investments, the Trust's investments have been designated at FVTPL. The Trust's obligation for net assets attributable to holders of redeemable units is presented on the financial statements at the redemption amount as determined according to the Declaration of Trust. All other financial assets and financial liabilities are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Trust's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value for transactions with unitholders.

### (c) Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

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### 3. Significant accounting policies (continued):

#### (d) Recognition/derecognition:

The Trust recognizes financial assets or financial liabilities designated as trading securities on a trade date basis - the date it commits to purchase or sell the instruments. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statements of comprehensive income.

Other financial assets are derecognized when, and only when, the contractual rights to the cash flows from the asset expire; or when the Trust transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Trust derecognizes financial liabilities when, and only when, the Trust's obligations are discharged, cancelled or expire.

#### (e) Income recognition:

Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Trust accounted for on an accrual basis. The Trust does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight-line basis.

Realized gain/loss on sale of investments and unrealized appreciation/depreciation in investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

#### (f) Income taxes:

The Trust is taxable as a mutual fund trust under the Income Tax Act (Canada) on its income, including net realized capital gains in the taxation year, which is not paid or payable to its unitholders as at the end of the taxation year. It is the intention of the Trust to distribute all of its net income and sufficient net realized capital gains so that the Trust will not be subject to income taxes.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

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### 3. Significant accounting policies (continued):

#### (g) Foreign currency translation:

Transactions in currencies other than the Canadian dollar are translated at the rates of exchange prevailing at the transaction dates. Assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting dates. The functional currency of the Trust is Canadian dollars. Resulting exchange differences are recognized in the statements of comprehensive income in net realized gain on financial statements.

#### (h) Transaction costs:

Transaction costs are expensed and are included in the statements of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

#### (i) Use of estimates:

The preparation of financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

#### (j) Cash and cash equivalents:

Cash and cash equivalents represent cash positions as well as any trades that are in transit as at December 31, 2014, December 31, 2013 and January 1, 2013.

#### (k) Net asset attributable to holders of redeemable units per unit:

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class outstanding at the end of the year.



## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

---

### 3. Significant accounting policies (continued):

#### (l) Increase net asset attributable to holders of redeemable units per unit:

Increase in net assets attributable to holders of redeemable units per unit is based on the increase in net assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the year. Refer to note 12 for the calculation.

### 4. Related party transactions:

#### (a) Specialty Foods Group Inc. Services Agreement:

The Trust has an investment in the securities of Specialty Foods Group Inc. ("SFG"). Another fund managed by the Investment Manager also has an investment in SFG securities. A senior executive of the Investment Manager is also a member of the board of directors of SFG. During 2012, the Investment Manager entered into a services agreement with SFG (the "SFG Services Agreement"), whereby the Investment Manager is to provide strategic advice and analysis to SFG and in return will earn a fee for these services. As per its internal policy and approved by the Trust's Independent Review Committee, the Investment Manager reduced the management fees and administrative fees that it charges to the Trust in order to pass along the economic benefit of the fees earned by the Investment Manager from the SFG Services Agreement in an amount proportionate to the Trust's relative investment in SFG securities. During the year ended December 31, 2014, the Investment Manager reduced management fees by \$67,063 (2013 - \$59,775) and reduced administrative fees by \$36,215 (2013 - \$32,225), which fees and costs would have been subject to harmonized sales tax ("HST"). Therefore, the total impact of fee reductions amounted to \$116,703 inclusive of HST (2013 - \$103,960). The Investment Manager will continue to reduce the management fee and administrative fees accordingly, for so long as the Trust is invested in SFG securities and the Investment Manager continues to receive fees under the SFG Services Agreement.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 4. Related party transactions (continued):

### (b) Management fees:

The management fee payable to the Investment Manager is based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Management fee
Up to and including \$250 million	0.65% plus HST
Between \$250 million and \$500 million	0.60% plus HST
\$500 million and more	0.55% plus HST

The net management fees for the year ended December 31, 2014 amounted to \$94,451 (2013 - \$80,330). The Investment Manager reduced the net management fees by \$67,063 (2013 - \$59,775), as described in further detail in (a). In the absence of the net management fee reduction, total net management fees for 2014 would have amounted to approximately \$170,232, inclusive of HST (2013 - \$147,876). The net management fee payable as of December 31, 2014 amounted to \$17,283 including HST (December 31, 2013 - \$28,823; January 1, 2013 - nil).

### (c) Administrative fees:

Subject to the supervision of the Trustee, the Investment Manager agrees to be responsible for and provide certain administrative services to the Trust. The Trust will pay the Investment Manager a fee based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Administrative fee
Up to and including \$250 million	0.35% plus HST
Between \$250 million and \$500 million	0.30% plus HST
\$500 million and more	0.25% plus HST

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

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### 4. Related party transactions (continued):

The net administrative fees for the year ended December 31, 2014 amounted to \$50,741 (2013 - \$43,211). The Investment Manager reduced the net administrative fee by \$36,215 (2013 - \$32,225), as described in further detail in (a). In the absence of the net administrative fee reduction, total net administrative fees for 2014 would have amounted to approximately \$91,663, inclusive of HST (2013 - \$79,626). The net administrative fee payable as December 31, 2014 amounted to \$9,164 including HST (December 31, 2013 - \$15,404; January 1, 2013 - nil).

#### (d) Incentive fee:

An incentive fee will be payable to the Investment Manager in any year, equal to 20% of the amount by which the net asset attributable to holders of redeemable units per unit at the end of the year, adjusted for contributions, distributions and redemptions during the year, exceeds the net asset attributable to holders of redeemable units per unit at the beginning of the year by more than 5%, plus any shortfall from the prior year. This fee is accrued monthly but calculated and paid annually. Incentive fee expense for the year ended December 31, 2014 amounted to \$11,343 inclusive of HST (2013 - \$891,886). The incentive fee payable as December 31, 2014 amounted to \$11,343 including HST (December 31, 2013 - \$891,886; January 1, 2013 - \$131,117).

#### (e) Investor relations fees:

The Investment Manager is paid a monthly investor relations fee of \$1,000 plus applicable sales tax for unitholder reporting and other services provided under a service agreement. The aggregate investor relations fee for the year ended December 31, 2014 amounted to \$13,560, inclusive of HST (2013 - \$13,560).

#### (f) Other related party transactions:

Certain members of the Investment Committee and their affiliated entities (excluding senior executives of the Investment Manager and their affiliates) are unitholders in the Trust. At December 31, 2014, such related parties held 722,790 (2013 - 722,790) units representing approximately 43.1% (2013 - 42.5%) of the redeemable units of the Trust.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

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### 5. Unitholders' entitlements:

The unitholders' entitlements with respect to the net assets attributable to holders of redeemable units and distribution of income are generally as follows:

(a) Entitlement in respect of net assets attributable to holders of redeemable units:

A pro rata share of the net assets attributable to holders of redeemable units of the Trust in the proportion that each unitholders' equity bears to the aggregate unitholders' equity.

(b) Tax designations and elections:

The Trustee shall file all tax returns, on behalf of the Trust, required by law.

(c) Redemption of redeemable units:

By delivering an Annual Redemption Request to be received by the Trust's registrar and transfer agent on or before the twentieth business day prior to the applicable Annual Redemption Date, being the valuation date following August 31 in any year, subject to compliance with applicable laws and the provisions, unitholders shall be entitled to require the Trust to redeem some or all of their units outstanding at net asset attributable to holders of redeemable units as of the Annual Redemption Date.

(d) Distributions:

The Trust intends to make semi-annual distributions to unitholders of record as of the last valuation date of each of June and December in each calendar year, of such amount per unit as the Trustee, upon consultation with the Investment Manager, may determine. It is anticipated that the annual distribution will be at least equal to the net capital gains plus the net income of the Trust for that year, net of any tax losses brought forward from prior years.

During the year, the Trust made distributions of \$0.15 per unit on June 30, 2014 and \$0.15 per unit on December 30, 2014 for total distributions of \$0.30 per unit (2013 - \$0.24) or \$506,511 (2013 - \$408,113).

As at December 31, 2014, the Trust had cumulative net capital losses of \$17,499,761 (2013 - \$17,499,761) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

As at December 13, 2014, the Trust had non-capital losses of \$85,810 (2013 - nil) for income tax purposes that may be carried forward and applied to reduce future taxable income.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

### 6. Redeemable units of the Trust:

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets attributable to holders of redeemable units of the Trust. Each redeemable unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net asset attributable to holders of redeemable units per unit calculated on the redemption date.

	2014	2013
Redeemable units, beginning of year	1,700,470	1,700,470
Redeemable units tendered for redemption	(24,200)	(76,700)
Recirculation of redeemable units tendered for redemption	—	76,700
Redeemable units, end of year	1,676,270	1,700,470

### 7. Expenses:

The Investment Manager has the power to incur and make payment out of the Trust's property any charges or expenses which, in the opinion the Investment Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Declaration of Trust, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust will be responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

### 8. Indemnification of the Investment Manager:

The Trust has indemnified the Investment Manager (and each of its directors and officers) from and against all liabilities and expenses, reasonably incurred by the Investment Manager, other than liabilities and expenses incurred as a result of the Investment Manager's willful misconduct, bad faith or negligence. There were no claims or expenses against the Investment Manager requiring indemnification during the year ended December 31, 2014.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 9. Financial instruments risk management:

Managing the risks of the investment portfolio is a critical element of the investment management process. The Investment Manager's overall risk management process seeks to minimize the potentially adverse effect of risk on its financial performance in a manner that is consistent with the Trust's investment mandate. To accomplish this goal, the Investment Manager utilizes a range of well-established tools and methods to manage the risk of the Trust.

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

### (a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust. Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The market value of debt instruments and derivatives includes consideration of the creditworthiness of the issuer and, accordingly, represents the majority of the credit risk exposure of the Trust. As at December 31, 2014, the market value of the Trust's debt portfolio was \$3.9 million (19% of net assets attributable to holders of redeemable units) (December 31, 2013 - \$4.7 million (21.3% of net assets attributable to holders of redeemable units); January 1, 2013 - \$2.9 million (15.6% of net assets attributable to holders of redeemable units)), and comprised non-rated bonds (7.8%, 15.9% and 7.5% of net assets attributable to holders of redeemable units for December 31, 2014, December 31, 2013 and January 1, 2013, respectively), defaulted bonds (10.7%, 4.5% and 7.0% of net assets attributable to holders of redeemable units for December 31, 2014, December 31, 2013 and January 1, 2013, respectively) and bonds rate single-B or lower (0.5%, 1.0% and 1.1% of net assets attributable to holders of redeemable units for December 31, 2014, December 31, 2013 and January 1, 2013, respectively).

All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold takes place once the broker has received payment, and purchases are paid for once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 9. Financial instruments risk management (continued):

### (b) Liquidity risk:

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligations on time or at a reasonable price.

The Trust's exposure to liquidity risk primarily relates to annual redemption of units. Other than the high yield and defaulted bonds, the Trust primarily invests in equity securities that are traded in active markets and can be readily disposed of. In addition, the Trust retains sufficient cash to maintain liquidity.

### (c) Market risk:

#### (i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than the Canadian dollar, which represents the functional and presentational currency of the Trust. The Trust may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies. The Trust's exposure to another currency is as follows:

December 31, 2014:

Currency	Exposure			Impact on net assets attributable to holders of redeemable units		
	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	\$ (7,818)	\$ 6,696,934	\$ 6,689,116	\$ (78)	\$ 66,969	\$ 66,891
% of net assets attributable to holders of redeemable units	—	32.4	32.4	—	0.3	0.3

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 9. Financial instruments risk management (continued):

December 31, 2013:

Currency	Exposure			Impact on net assets attributable to holders of redeemable units		
	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	\$ 478,512	\$ 5,118,715	\$ 5,597,227	\$ 4,785	\$ 51,187	\$ 55,972
% of net assets attributable to holders of redeemable units	2.2	23.4	25.6	0.1	0.2	0.3

January 1, 2013:

Currency	Exposure			Impact on net assets attributable to holders of redeemable units		
	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	\$ 303,119	\$ 3,709,850	\$ 4,012,969	\$ 3,031	\$ 37,099	\$ 40,130
% of net assets attributable to holders of redeemable units	1.7	20.2	21.9	—	0.2	0.2

As at December 31, 2014, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to holders of redeemable units would have decreased or increased, respectively, by approximately 0.3% (\$66,891) (December 31, 2013 - 0.3% (\$55,972); January 1, 2013 - 0.2% (\$40,130)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 9. Financial instruments risk management (continued):

### (ii) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is no sensitivity to interest rate fluctuations on any cash balances.

As the Trust has significant exposure to high yield and defaulted bonds with no exposure to government bonds, its bond investments tend to be affected more by changes in overall economic growth and company-specific fundamentals rather than changes in interest rates. However, high yield bonds do have a degree of interest rate risk, which is illustrated in the table below.

As at December 31, 2014, the Trust's exposure to debt instruments by maturity and the impact on its net asset attributable to holders of redeemable units if the yield curve is shifted in parallel by an increase of 25 basis points ("bps"), holding all other variables constant ("sensitivity"), would be as follows:

	December 31, 2014	December 31, 2013	January 1, 2013
<b>Market* by maturity date:</b>			
1 year or less	—	—	—
1 - 3 years	377,380	2,722,771	—
3 - 5 years	1,340,123	953,985	1,373,940
More than 5 years	—	—	205,125
<b>Sensitivity to 25bps yield change increase or decrease net assets</b>	<b>9,612</b>	<b>20,885</b>	<b>10,821</b>

\*Excludes cash and defaulted bonds.

In practice, actual results may differ from the above sensitivity analysis and the difference could be material.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 9. Financial instruments risk management (continued):

### (iii) Other price risk:

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from credit risk, interest rate risk or currency risk). All investments represent a risk of loss of capital. The Investment Manager of the Trust moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Trust's investment objectives and strategy. The Trust's overall market positions are monitored on a regular basis by the Investment Manager.

As at December 31, 2014, 51.0% (December 31, 2013 - 56.4%; January 1, 2013 - 57.2%) of the Trust's net assets attributable to holders of redeemable units were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately 5.1% \$1,050,792 (December 31, 2013 - 5.6% \$1,235,013; January 1, 2013 - 5.7% \$1,050,022). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

## 10. Fair value measurements:

Financial instruments are measured at fair value using a three-tier hierarchy based on inputs used to value the Trust's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in public markets for identical assets or liabilities;
- Level 2 - dealer quoted prices in over-the-counter markets for identical assets or liabilities, or inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 10. Fair value measurements (continued):

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following table presents the Trust's financial instruments that have been measured at fair value, on a recurring basis:

December 31, 2014	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 1,828,845	\$ 2,088,771	\$ –	\$ 3,917,616
Equities	8,676,753	–	3,622,844	12,299,597
Warrants and options	2,325	–	–	2,325
	<u>\$ 10,507,923</u>	<u>\$ 2,088,771</u>	<u>\$ 3,622,844</u>	<u>\$ 16,219,538</u>

December 31, 2013	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 3,472,756	\$ 1,200,063	\$ –	\$ 4,672,819
Equities	8,836,791	–	–	8,836,791
Warrants and options	43,200	–	2,511,533	2,554,733
	<u>\$ 12,352,747</u>	<u>\$ 1,200,063</u>	<u>\$ 2,511,533</u>	<u>\$ 16,064,343</u>

January 1, 2013	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 1,373,939	\$ 1,486,974	\$ –	\$ 2,860,913
Equities	9,103,881	–	–	9,103,881
Warrants and options	22,400	–	771,415	793,815
	<u>\$ 10,500,220</u>	<u>\$ 1,486,974</u>	<u>\$ 771,415</u>	<u>\$ 12,758,609</u>

The Trust did not have any transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy in 2014 or 2013.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 10. Fair value measurements (continued):

The table below shows a reconciliation of the opening and closing balance of financial instruments recorded in Level 3:

	Beginning of year, January 1, 2014	Realized fair value gain	Unrealized fair value gain	Sales or purchases	End of year, December 31, 2014
Specialty Foods Group - warrant	\$ 2,511,533	\$ -	\$ -	\$ (2,511,533)	\$ -
Specialty Foods Group - equity	-	-	1,111,311	2,511,533	3,622,844
	<b>\$ 2,511,533</b>	<b>\$ -</b>	<b>\$ 1,111,311</b>	<b>\$ -</b>	<b>\$ 3,622,844</b>

	Beginning of year, January 1, 2013	Realized fair value gain	Unrealized fair value gain	Sales or purchases	End of year, December 31, 2013
Specialty Foods Group - warrant	\$ 771,415	\$ -	\$ 1,740,118	\$ -	\$ 2,511,533

The table below sets out information about significant unobservable inputs used at December 31, 2014 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value at December 31, 2014	Valuation technique	Unobservable Input	Range (weighted average)	Sensitivity to changes Insignificant unobservable inputs
Unlisted private equity investments	\$ 3,622,844	Present value of expected future distributions received	EBITDA multiple	5.0x EBITDA. No alternative assumption to disclose.	The estimated fair value would increase (decrease) by \$144,181 or 4.0% for each 0.5x increase (decrease) in the EBITDA multiple.
			Discount rate	3% to 10% discount rate (7% weighted average).	The estimated fair value would increase (decrease) by \$19,778 or 0.5% for each 100bps increase (decrease) in the discount rate.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 10. Fair value measurements (continued):

Description	Fair value at December 31, 2013	Valuation technique	Unobservable Input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	\$ 2,511,533	Present value of expected future distributions received	EBITDA multiple	4.0x EBITDA. No alternative assumption to disclose.	The estimated fair value would increase (decrease) by \$181,190 or 6.4% for each 0.5x increase (decrease) in the EBITDA multiple.
			Discount rate	25% discount rate No alternative assumption to disclose.	The estimated fair value would increase (decrease) by \$20,387 or 0.8% for each 100bps increase (decrease) in the discount rate.

Description	Fair value at January 1, 2013	Valuation technique	Unobservable Input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	\$ 771,415	Present value of expected future distributions received	EBITDA multiple	3.0x EBITDA. No alternative assumption to disclose.	The estimated fair value would increase (decrease) by \$131,461 or 1.7% for each 0.5x increase (decrease) in the EBITDA multiple.
			Discount rate	25% discount rate No alternative assumption to disclose.	The estimated fair value would increase (decrease) by \$9,492 or 1.23% for each 100bps increase (decrease) in the discount rate.

The Manager is responsible for performing the fair value measurements included in the financial statements of the Trust, including Level 3 measurements. The Manager obtains pricing for Level 3 financial instruments from a third party pricing vendor, which is reviewed and approved by the Manager.

Financial instruments not measured at fair value:

- (a) The cash and cash equivalents, interest and dividends receivable, accounts payable and accrued liabilities, management and administration fees payable and incentive fees payable are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 10. Fair value measurements (continued):

Cash and cash equivalents and other receivables include the contractual amounts for settlement of trades and other obligations due to the Trust. Accruals represent the contractual amounts and obligations due by the Trust for settlement of trades and expenses.

- (b) The Trust's redeemable units are measured at the redemption amount and are considered a residual interest in the assets of the Trust after deducting all of its liabilities.

The redemption value of redeemable units is calculated based on the net difference between total assets and all other liabilities of the Trust in accordance with the Declaration of Trust. The units are redeemable annually, at the holders' option, for cash equal to the proportionate share of the Trust's net asset value attributable to the share class as described in the Declaration of Trust and in note 5(c) of these financial statements.

## 11. Net gain (loss) from financial assets at fair value through profit or loss:

	2014	2013
Net realized gain on financial assets:		
Financial assets held for trading	\$ 139,820	\$ —
Financial assets designated at fair value through profit and loss	634,174	1,632,007
	<u>773,994</u>	<u>1,632,007</u>
Net change in unrealized gain (loss) on financial assets:		
Financial assets held for trading	(8,875)	1,760,918
Financial assets designated at fair value through profit and loss	(1,468,153)	1,246,023
	<u>(1,477,028)</u>	<u>3,006,941</u>
	<u>\$ (703,034)</u>	<u>\$ 4,638,948</u>

The realized gain from financial assets at fair value through profit or loss represents the difference between the carrying amount of the financial asset at the beginning of the reporting period, or the transaction price if it was purchased during the reporting period, and its sale or settlement price.

The unrealized gain (loss) represents the difference between the carrying amount of a financial asset at the beginning of the reporting period, or the transaction price if it was purchased during the reporting period, and its carrying amount at the end of the reporting period.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 12. Increase in net assets attributable to holders of redeemable units per unit:

The increase in net assets attributable to holders of redeemable units per unit for the year ended December 31, 2014 and 2013 is calculated as follows:

	2014	2013
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (402,560)	\$ 3,963,093
Weighted average of redeemable units outstanding during the year	1,684,094	1,700,470
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$ (0.24)	\$ 2.33

## 13. Capital disclosures:

The Investment Manager has policies and procedures in place to manage the capital of the Trust in accordance with the Trust's investment objectives, strategies and restrictions, as detailed in the offering document. Information about the capital is described in the statements of changes in net assets attributable to holders of redeemable units and the Trust does not have externally imposed capital requirements.

## 14. Transition to IFRS:

The effect of the Trust's transition to IFRS is summarized in this note as follows:

### (a) Exemptions and exceptions from full retrospective application:

First-time adopters of IFRS must apply the provisions of IFRS 1. IFRS 1 requires adopters to retrospectively apply all IFRS standards as of the reporting date with certain optional exemptions and certain mandatory exceptions. As allowed under IFRS 1, the Trust elected to designate all investments at fair value through profit and loss which were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies. The Trust did not apply any other IFRS 1 exemptions or exceptions.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

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## 14. Transition to IFRS (continued):

### (b) Statement of cash flows:

Under Canadian GAAP, the Trust was exempt from providing a statement of cash flows. IAS 1, Presentation of Financial Statements requires that a complete set of financial statements include a statement of cash flows for the current and comparative years, without exception.

### (c) Classification of redeemable units issued by the Trust:

Under Canadian GAAP, the Trust accounted for its redeemable units as equity. Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Trust's redeemable securities entitle unitholders the right to redeem their interest in the Trust for cash equal to their proportionate share of the net asset value of the Trust, amongst other contractual rights. These redeemable securities involve multiple contractual obligations on the part of the Trust and, therefore, meet the criteria for classification as financial liabilities on transition to IFRS. The Trust's obligation for net assets attributable to unitholders is measured at FVTPL, with fair value being the redemption amount.

### (d) Revaluation of investments at FVTPL:

Under Canadian GAAP, the Trust measured the fair values of its investments in accordance with Section 3855, Financial Instruments - Recognition and Measurement, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Trust measures the fair values of its investments using the guidance in IFRS 13, Fair Value Measurement, which requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

As the fair values of all of the investments of the Trust under GAAP at December 31, 2013 and January 1, 2013 fell within the bid and ask prices, there were no revaluation differences on these dates.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2014 and 2013

## 14. Transition to IFRS (continued):

- (e) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS:

The following is a reconciliation of amounts previously reported under Canadian GAAP to IFRS:

Equity	December 31, 2013	January 1, 2013
Equity as reported under Canadian GAAP	\$ 21,899,457	\$ 18,344,477
Revaluation of investments at FVTPL	—	—
<b>Net assets attributable to holders of redeemable units</b>	<b>\$ 21,899,457</b>	<b>\$ 18,344,477</b>

	December 31, 2013
<b>Comprehensive income</b>	
Comprehensive income as reported under Canadian GAAP	\$ 3,963,093
Revaluation of investments at FVTPL	—
<b>Increase in net assets attributable to holders of redeemable units</b>	<b>\$ 3,963,093</b>



EXHIBIT 17 TO THE  
CROSS-  
EXAMINATION  
OF S. REID

Financial Statements of

## **RAVENSOURCE FUND**

Years ended December 31, 2015 and 2014

# RAVENSOURCE FUND

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Years ended December 31, 2015 and 2014

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Internet [www.kpmg.ca](http://www.kpmg.ca)

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Ravensource Fund

We have audited the accompanying financial statements of Ravensource Fund, which comprise the statements of financial position as at December 31, 2015 and 2014, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ravensource Fund as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

February 18, 2016  
Toronto, Canada

# RAVENSOURCE FUND

## Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 6,487,078	\$ 4,439,683
Financial assets designated at fair value through profit or loss (cost - \$13,740,192; 2014 - \$15,076,156) (note 3(a) and (c))	16,549,548	16,217,213
Financial assets held for trading (cost - nil; 2014 - nil) (note 3(a), (b) and (c))	63,000	2,325
Interest and dividends receivable	34,993	82,271
	23,134,619	20,741,492
<b>Liabilities</b>		
Accounts payable and accrued liabilities	69,516	60,253
Management and administrative fees payable (note 4(b) and (c))	30,394	30,019
Incentive fee payable (note 4(d))	113,603	11,344
	213,513	101,616
<b>Net assets attributable to holders of redeemable units</b>	<b>\$ 22,921,106</b>	<b>\$ 20,639,876</b>
<b>Number of redeemable units outstanding (note 6)</b>	<b>1,674,670</b>	<b>1,676,270</b>
<b>Net assets attributable to holders of redeemable units per unit (note 5)</b>	<b>\$ 13.69</b>	<b>\$ 12.31</b>

See accompanying notes to financial statements.

Approved on behalf of the Trust:

\_\_\_\_\_  
Investment Manager  
Stormoway Portfolio Management Inc.

# RAVENSOURCE FUND

## Statements of Comprehensive Income

Years ended December 31, 2015 and 2014

	2015	2014
<b>Income:</b>		
Interest income for distribution purposes	\$ 38,857	\$ 365,971
Dividends and income trust distributions	253,895	270,594
	292,752	638,565
<b>Net change in fair value on financial assets at fair value through profit or loss (note 11):</b>		
Net realized gain on financial assets, including foreign exchange adjustments	1,199,238	773,994
Net change in unrealized gain (loss) on financial assets	1,646,427	(1,477,028)
Change in unrealized gain on forward contract	63,000	—
	2,908,665	(703,034)
	3,201,417	(66,469)
<b>Expenses (income):</b>		
Management fees (note 4(b))	160,443	170,232
Administrative fees (note 4(c))	86,392	91,663
Impact of management and administrative fee reductions (note 4(a))	(120,041)	(116,703)
Incentive fee (note 4(d))	102,259	11,344
Investor relations fees (note 4(e))	13,560	13,560
Legal fees	22,099	31,991
Accounting fees	26,371	24,408
Trust administration and transfer agency fees	20,000	23,504
Audit fees	24,329	23,220
Listing fees	22,013	19,197
Other	26,553	14,919
Independent review committee fees	4,000	7,600
Transaction costs	9,230	21,156
	397,208	336,091
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>\$ 2,804,209</b>	<b>\$ (402,560)</b>
<b>Average number of units outstanding</b>	<b>1,675,192</b>	<b>1,684,094</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit</b>	<b>\$ 1.67</b>	<b>\$ (0.24)</b>

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

Years ended December 31, 2015 and 2014

	2015	2014
Net assets attributable to holders of redeemable units, beginning of year	\$ 20,639,876	\$ 21,899,457
Increase (decrease) in net assets attributable to holders of redeemable units	2,804,209	(402,560)
Capital transactions:		
Redemptions of redeemable units (note 5(c))	(20,338)	(350,510)
Distributions paid to holders of redeemable units (note 5(d))	(502,641)	(506,511)
	(522,979)	(857,021)
Net assets attributable to holders of redeemable units, end of year	\$ 22,921,106	\$ 20,639,876

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from (used in) operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 2,804,209	\$ (402,560)
Adjustments for non-cash items:		
Net realized gain on financial assets, including foreign exchange adjustments	(1,199,238)	(773,994)
Net change in unrealized gain (loss) on financial assets	(1,646,427)	1,477,028
Change in unrealized gain on forward contract	(63,000)	—
Change in non-cash balances:		
Decrease (increase) in interest and dividends receivable	47,278	(28,585)
Increase in accounts payable and accrued liabilities	9,263	6,015
Increase (decrease) in incentive, management and administrative fees payable	102,634	(894,750)
Proceeds from sale of investments	4,948,858	6,539,145
Purchase of investments	(2,331,341)	(7,419,666)
Net cash flows from (used in) operating activities	2,672,236	(1,497,367)
Cash flows from (used in) financing activities:		
Redemptions of redeemable units	(20,338)	(350,510)
Distributions paid to holders of redeemable units, net of reinvested distributions	(502,641)	(506,511)
Net cash flows used in financing activities	(522,979)	(857,021)
Increase (decrease) in cash and cash equivalents	2,149,257	(2,354,388)
Foreign exchange gain (loss) on cash	(101,862)	22,292
Cash and cash equivalents, beginning of year	4,439,883	6,771,779
Cash and cash equivalents, end of year	\$ 6,487,078	\$ 4,439,683
Supplemental cash flow information:		
Interest received	\$ 110,431	\$ 411,386
Dividends received	229,598	253,763

See accompanying notes to financial statements.



# RAVENSOURCE FUND

## Schedule of Investments

December 31, 2015

Number of shares/units	Investments owned	Average cost	Fair value	Fair value as % of net asset value
Canadian equities:				
47,700	Canwel Holdings Corp.	\$ 341,059	\$ 227,529	0.99
228,100	Chinook Energy Inc.	478,156	132,298	0.58
8,028	Connacher Oil and Gas Ltd.	223,500	1,044	—
1,000	Crystallex International Corp.	90	82	—
40,000	Fiera Capital Corp.	173,300	450,400	1.97
140,375	Glacier Media Inc.	368,989	103,878	0.45
21,100	GVIC Comm - Class B	17,091	4,220	0.02
22,500	GVIC Comm - Class C	18,045	3,375	0.01
8,800	Indigo Books & Music Inc.	44,675	127,688	0.56
2,352,500	Melior Resources Inc.	270,585	35,288	0.15
1,250,000	NAPEC Inc.	1,106,250	912,500	3.98
655,000	Northern Frontier Corp.	1,187,071	294,750	1.29
58,400	NuVista Energy Ltd.	312,183	236,520	1.03
248,033	Plazacorp Retail Properties Ltd.	296,064	1,160,794	5.06
174,200	Supremex Inc.	396,824	850,095	3.71
83,900	Ten Peaks Coffee Company Inc.	237,487	992,537	4.33
23,200	Winpak Ltd.	150,878	1,056,760	4.61
		5,622,247	6,589,758	28.74
U.S. equities:				
4,362,500	Delavaco Residential Properties Corp.	1,603,977	1,539,614	6.72
75,000	Genworth Financial Inc.	441,137	387,174	1.69
13,157	Quad Graphics	595,635	169,346	0.74
1,323,256	SeaCo Ltd.	—	366	—
58	Specialty Foods Group	239,967	5,162,893	22.52
		2,880,716	7,259,393	31.67
Fixed income:				
244,000	Anderson Energy Ltd. 7.50% due January 31, 2016	185,818	65,880	0.29
425,300	Anderson Energy Ltd. 7.25% due June 30, 2017	134,923	127,718	0.58
10,128	Connacher Oil & Gas Ltd. 12.00% due August 31, 2018	12,399	4,065	0.02
3,650,000	Crystallex International Corp. 9.375% due December 30, 2011 *	1,889,122	2,273,220	9.92
1,000,000	Delphi Holdings Corp. 6.55% due June 15, 2006 *	732,498	41,520	0.18
1,043,000	Exall Energy Corp. 7.75% due March 31, 2017*	352,036	—	—
6,000	Gafrac Energy Services Inc. 7% due February 28, 2017 *	4,207	—	—
427,260	GuestLogix Inc. 7% due December 31, 2019 *	172,116	187,994	0.82
4,284,000	Ivanhoe Energy Inc. 5.75% due June 30, 2016 *	1,776,864	—	—
		5,259,983	2,700,397	11.79

# RAVENSOURCE FUND

Schedule of Investments (continued)

December 31, 2015

Number of shares/units	Investments owned	Average cost	Fair value	Fair value as % of net asset value
	Warrants, options and forward contracts:			
250,000	Napco Inc. \$1.25 June 1, 2017 Restricted October 2, 2015	—	—	—
465,000	Northern Frontier Corp. \$3.40 February 28, 2016	—	—	—
	Forward contract:			
	Sell 6,975,000 CAD, Buy 5,000,000 USD @ 1.3950, March 18, 2016	—	63,000	0.28
Net investments owned		13,762,946	16,612,548	72.48
Brokerage commissions		(22,754)	—	—
Total portfolio of investments		<u>\$ 13,740,192</u>	16,612,548	72.48
Other net assets			6,308,558	27.52
Net assets			<u>\$ 22,921,106</u>	100.00

\*Defaulted

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Notes to Financial Statements

Years ended December 31, 2015 and 2014

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### 1. Trust organization and nature of operations:

The Ravensource Fund (the "Trust") is a closed-end investment trust which was created under the laws of the Province of Ontario pursuant to a declaration of trust, dated April 28, 1997, as amended January 15, 2001 and as further amended and restated as at August 22, 2003, July 1, 2008, and July 3, 2015. The Trust's units are listed on the Toronto Stock Exchange (RAV.UN).

Computershare Trust Company of Canada acts as trustee for the Trust (the "Trustee"). At a special meeting of the Trust's unitholders, Stornoway Portfolio Management Inc., an Ontario corporation, was appointed as the investment manager ("Investment Manager") of the Trust, effective July 1, 2008. The Trust's principal place of business is located at 30 St. Clair Avenue West, Suite 901, Toronto, Ontario, M4V 3A1.

The Investment Manager provides portfolio management and administrative services to the Trust, subject to the overall supervision of the Trustee. The Investment Manager is authorized to invest the Trust's assets and make investment decisions on behalf of the Trust. Senior executives of the Investment Manager own 159,500 (2014 - 187,153) units, representing 9.5% (2014 - 11.2%) of the outstanding units as at December 31, 2015.

The capital of the Trust is represented by the net assets attributable to holders of redeemable units of the Trust, and comprises investments, and cash and cash equivalents offset by liabilities of the Trust. As more fully outlined in the Declaration of Trust, the principal investment objective of the Trust is to achieve absolute annual returns, with an emphasis on capital gains, through investment in selected North American securities. The Trust will invest its property primarily in North American high yield and distressed debt securities, and in equity securities. The success of the Trust depends on the investment decisions of the Investment Manager and will be influenced by a number of risk factors, including liquidity risk, market risk, investment in options, and leverage from borrowed funds.

### 2. Basis of presentation and adoption of International Financial Reporting Standards ("IFRS"):

The policies applied in these financial statements are based on IFRS in effect as at February 18, 2016, which is the date on which the financial statements were authorized for issue by the Investment Manager.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 3. Significant accounting policies:

Accounting standard issued but not yet adopted:

The following new standard and amendments to existing standards were issued by the International Accounting Standards Board ("IASB"):

The final version of IFRS 9, Financial Instruments ("IFRS 9"), was issued by the IASB in July 2014 and will replace IAS 39, Financial Instruments - Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however, is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Trust is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

The following is a summary of the significant accounting policies followed by the Trust:

### (a) Valuation of investments:

Securities listed upon a recognized public stock exchange are valued at their bid prices on the valuation dates. In a situation where, in the opinion of the Investment Manager, a market quotation for a security is inaccurate, unreliable, or not readily available, the fair value of the security is estimated using valuation techniques generally used in the industry. These techniques take into account market factors, valuation of similar securities and interest rates.

Short-term notes, treasury bills, bonds, asset-backed securities and other debt instruments traded in over-the-counter markets are valued at bid quotations provided by recognized investment dealers.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 3. Significant accounting policies (continued):

Securities not listed upon a recognized public stock exchange or not traded in over-the-counter markets are valued using valuation techniques, which take into account market factors, valuation of similar securities and interest rates.

### (b) Valuation of forward contract:

The Trust entered into a forward contract to hedge itself against foreign currency exchange rate risk for its foreign currency denominated assets and liabilities in case of adverse foreign currency fluctuations against the U.S. dollar and as part of its investment strategy.

Forward contract currency transactions are contracts or agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency contracts are the inability of counterparties to meet the terms of their respective contracts and movements in fair value and exchange rates. The Trust considers the credit risk of the counterparty for forward contracts in evaluating potential credit risk and selecting counterparties to forward contracts.

### (c) Classification:

The Trust classifies its investments in debt and equity securities and derivatives as financial assets and financial liabilities at fair value through profit or loss ("FVTPL").

This category has two sub-categories: financial assets or financial liabilities held-for-trading; and those designated at FVTPL at inception.

#### (i) Financial assets and financial liabilities held-for-trading:

A financial asset or financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives, including warrants and options, are categorized as held-for-trading regardless of the Trust's intention to hold the security for a prolonged period of time. The Trust does not classify any derivatives as hedges in a hedging relationship.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 3. Significant accounting policies (continued):

### (ii) Financial assets and financial liabilities designated at FVTPL:

Financial assets and financial liabilities classified as FVTPL are financial instruments that are not classified as held-for-trading and their performance is evaluated on a fair value basis in accordance with the Trust's documented investment strategy.

The Trust recognizes financial instruments at fair value. Purchases and sales of financial assets are recognized at their trade dates. Aside from its holdings of warrants and other derivative investments, the Trust's investments have been designated at FVTPL. The Trust's obligation for net assets attributable to holders of redeemable units is presented on the financial statements at the redemption amount as determined according to the Declaration of Trust. All other financial assets and financial liabilities are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Trust's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value for transactions with unitholders.

### (d) Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Trust and its custodian have agreed that in the event of a default, the custodian reserves the right to sell any and all property the Trust holds with the custodian or any of its affiliates, to offset any indebtedness the Trust may have.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 3. Significant accounting policies (continued):

### (e) Recognition/derecognition:

The Trust recognizes financial assets or financial liabilities designated as trading securities on a trade date basis - the date it commits to purchase or sell the instruments. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statements of comprehensive income.

Other financial assets are derecognized when, and only when, the contractual rights to the cash flows from the asset expire; or when the Trust transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Trust derecognizes financial liabilities when, and only when, the Trust's obligations are discharged, cancelled or expired.

### (f) Income recognition:

Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Trust accounted for on an accrual basis. The Trust does not amortize premiums paid or discounts received on the purchase of fixed income securities, except for zero coupon bonds, which are amortized on a straight-line basis.

Realized gain/loss on sale of investments and unrealized appreciation/depreciation in investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 3. Significant accounting policies (continued):

### (g) Income taxes:

The Trust is taxable as a mutual fund trust under the Income Tax Act (Canada) on its income, including net realized capital gains in the taxation year, which is not paid or payable to its unitholders as at the end of the taxation year. It is the intention of the Trust to distribute all of its net income and sufficient net realized capital gains so that the Trust will not be subject to income taxes.

### (h) Foreign currency translation:

Transactions in currencies other than the Canadian dollar are translated at the rates of exchange prevailing at the transaction dates. Assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting dates. The functional currency of the Trust is the Canadian dollar. Resulting exchange differences are recognized in the statements of comprehensive income in net realized gain on financial assets.

### (i) Transaction costs:

Transaction costs are expensed and are included in the statements of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 3. Significant accounting policies (continued):

### (j) Use of estimates:

The preparation of financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

### (k) Cash and cash equivalents:

Cash and cash equivalents represent cash positions, as well as, any trades that are in transit as at December 31, 2015 and 2014.

### (l) Net assets attributable to holders of redeemable units per unit:

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class outstanding at the end of the year.

### (m) Increase (decrease) in net assets attributable to holders of redeemable units per unit:

Increase (decrease) in net assets attributable to holders of redeemable units per unit is based on the increase (decrease) in net assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the year. Refer to note 12 for the calculation.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

### 4. Related party transactions:

#### (a) Specialty Foods Group Inc. Services Agreement:

The Trust has an investment in the securities of Specialty Foods Group Inc. ("SFG"). Another fund managed by the Investment Manager also has an investment in SFG securities. A senior executive of the Investment Manager is also a member of the Board of Directors of SFG. During 2012, the Investment Manager entered into a services agreement with SFG (the "SFG Services Agreement"), whereby the Investment Manager is to provide strategic advice and analysis to SFG and, in return, will earn a fee for these services. As per its internal policy and approved by the Trust's Independent Review Committee, the Investment Manager reduced the management fees and administrative fees that it charges to the Trust in order to pass along the economic benefit of the fees earned by the Investment Manager from the SFG Services Agreement in an amount proportionate to the Trust's relative investment in SFG securities. During the year ended December 31, 2015, the Investment Manager reduced management fees by \$69,166 (2014 - \$67,063) and reduced administrative fees by \$37,065 (2014 - \$36,215), which fees and costs would have been subject to harmonized sales tax ("HST"). Therefore, the total impact of fee reductions amounted to \$120,041 inclusive of HST (2014 - \$116,703). The Investment Manager will continue to reduce the management fee and administrative fees accordingly, for so long as the Trust is invested in SFG securities and the Investment Manager continues to receive fees under the SFG Services Agreement.

#### (b) Management fees:

The management fees payable to the Investment Manager are based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Management fee
Up to and including \$250,000,000	0.65% plus HST
Between \$250,000,000 and \$500,000,000	0.60% plus HST
\$500,000,000 and more	0.55% plus HST

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 4. Related party transactions (continued):

The net management fees for the year ended December 31, 2015 amounted to \$82,286 (2014 - \$94,451). The Investment Manager reduced the net management fees by \$69,166 (2014 - \$67,063), as described in further detail in (a). In the absence of the net management fee reduction, total net management fees for 2015 would have amounted to approximately \$160,443, inclusive of HST (2014 - \$170,232). The net management fees payable as at December 31, 2015 amounted to \$19,756 including HST (2014 - \$19,618).

### (c) Administrative fees:

Subject to the supervision of the Trustee, the Investment Manager agrees to be responsible for and provide certain administrative services to the Trust. The Trust will pay the Investment Manager a fee based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Administrative fee
Up to and including \$250,000,000	0.35% plus HST
Between \$250,000,000 and \$500,000,000	0.30% plus HST
\$500,000,000 and more	0.25% plus HST

The net administrative fees for the year ended December 31, 2015 amounted to \$44,509 (2014 - \$50,741). The Investment Manager reduced the net administrative fees by \$37,065 (2014 - \$36,215), as described in further detail in (a). In the absence of the net administrative fees reduction, total net administrative fees for 2015 would have amounted to approximately \$86,392, inclusive of HST (2014 - \$91,663). The net administrative fees payable as at December 31, 2015 amounted to \$10,638, including HST (2014 - \$10,401).

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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### 4. Related party transactions (continued):

#### (d) Incentive fee:

An incentive fee will be payable to the Investment Manager in any year, equal to 20% of the amount by which the net asset attributable to holders of redeemable units per unit at the end of the year, adjusted for contributions, distributions and redemptions during the year, exceeds the net assets attributable to holders of redeemable units per unit at the beginning of the year by more than 5%, plus any shortfall from the prior year. This fee is accrued monthly but calculated and paid annually. Incentive fee expense for the year ended December 31, 2015 amounted to \$102,259 inclusive of HST (2014 - \$11,344). The incentive fee payable as at December 31, 2015 amounted to \$113,603, including HST of which \$11,344 related to incentive fees earned in 2014 and \$102,259 related to incentive fee earned in 2015 (2014 - \$11,344).

#### (e) Investor relations fees:

The Investment Manager is paid monthly investor relations fees of \$1,000 plus applicable sales tax for unitholder reporting and other services provided under a service agreement. The aggregate investor relations fees for the year ended December 31, 2015 amounted to \$13,560, inclusive of HST (2014 - \$13,560).

#### (f) Other related party transactions:

Certain members of the Investment Committee and their affiliated entities (excluding senior executives of the Investment Manager and their affiliates) are unitholders in the Trust. At December 31, 2015, such related parties held 722,790 (2014 - 722,790) units, representing approximately 43.2% (2014 - 43.1%) of the redeemable units of the Trust.

### 5. Unitholders' entitlements:

The unitholders' entitlements with respect to the net assets attributable to holders of redeemable units and distribution of income are generally as follows:

#### (a) Entitlement in respect of net assets attributable to holders of redeemable units:

A pro rata share of the net assets attributable to holders of redeemable units of the Trust in the proportion that each unitholders' equity bears to the aggregate unitholders' equity.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 5. Unitholders' entitlements (continued):

### (b) Tax designations and elections:

The Trustee shall file all tax returns, on behalf of the Trust, required by law.

### (c) Redemption of redeemable units:

By delivering an Annual Redemption Request to be received by the Trust's registrar and transfer agent on or before the twentieth business day prior to the applicable annual redemption date, being the valuation date following August 31 in any year ("Annual Redemption Date"), subject to compliance with applicable laws and the provisions, unitholders shall be entitled to require the Trust to redeem some or all of their units outstanding as net assets attributable to holders of redeemable units as of the Annual Redemption Date.

### (d) Distributions:

The Trust intends to make semi-annual distributions to unitholders of record as of the last valuation date of each of June and December in each calendar year, of such amount per unit as the Trustee, upon consultation with the Investment Manager, may determine. It is anticipated that the annual distribution will be at least equal to the net capital gains plus the net income of the Trust for that year, net of any tax losses brought forward from prior years.

During the year, the Trust made distributions of \$0.15 per unit on June 30, 2015 and \$0.15 per unit on December 31, 2015 for total distributions of \$0.30 per unit (2014 - \$0.30) or \$502,641 (2014 - \$506,511).

As at December 31, 2015, the Trust had cumulative net capital losses of \$16,751,698 (2014 - \$17,499,761) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

As at December 31, 2015, the Trust had non-capital losses of \$199,098 (2014 - \$85,810) for income tax purposes that may be carried forward and applied to reduce future years' taxable income.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

### 6. Redeemable units of the Trust:

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets attributable to holders of redeemable units of the Trust. Each redeemable unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net assets attributable to holders of redeemable units per unit calculated on the redemption date.

	2015	2014
Redeemable units, beginning of year	1,676,270	1,700,470
Redeemable units tendered for redemption	(1,600)	(24,200)
Redeemable units, end of year	1,674,670	1,676,270

### 7. Expenses:

The Investment Manager has the power to incur and make payment out of the Trust's property any charges or expenses which, in the opinion the Investment Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Declaration of Trust, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust will be responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

### 8. Indemnification of the Investment Manager:

The Trust has indemnified the Investment Manager (and each of its directors and officers) from and against all liabilities and expenses, reasonably incurred by the Investment Manager, other than liabilities and expenses incurred as a result of the Investment Manager's willful misconduct, bad faith or negligence. There were no claims or expenses against the Investment Manager requiring indemnification during the year ended December 31, 2015.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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### 9. Financial instruments risk management:

Managing the risks of the investment portfolio is a critical element of the investment management process. The Investment Manager's overall risk management process seeks to minimize the potentially adverse effect of risk on its financial performance in a manner that is consistent with the Trust's investment mandate. To accomplish this goal, the Investment Manager utilizes a range of well-established tools and methods to manage the risk of the Trust.

With the ability of taking both long and short positions, the Trust may incur both interest expense and borrowing fees. While the use of borrowed funds can substantially improve the return on invested capital, its use may also increase the adverse impact to which the investment portfolio of the Trust may be subjected by increasing the Trust's exposure to capital risk and higher current expenses. The Trust did not use any borrowed funds as at December 31, 2015 and 2014.

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

### 9. Financial instruments risk management (continued):

#### (a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust. Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The market value of debt instruments and derivatives includes consideration of the creditworthiness of the issuer and, accordingly, represents the majority of the credit risk exposure of the Trust. As at December 31, 2015, the market value of the Trust's debt portfolio was \$2,700,000 (11.8% of net assets attributable to holders of redeemable units) (2014 - \$3,900,000 (19% of net assets attributable to holders of redeemable units)), and comprised non-rated bonds (0.8% and 7.8% of net assets attributable to holders of redeemable units for December 31, 2015 and 2014, respectively), defaulted bonds (10.9% and 10.7% of net assets attributable to holders of redeemable units for December 31, 2015 and 2014, respectively) and bonds rate single-B or lower (0% and 0.5% of net assets attributable to holders of redeemable units for December 31, 2015 and 2014, respectively). As at December 31, 2015, the market value of the Trust's forward contract was \$63,000 (2014 - nil) and was held with Bank of Montreal which is rated AA.

All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold takes place once the broker has received payment, and purchases are paid for once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

#### (b) Liquidity risk:

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligations on time or at a reasonable price.

The Trust's exposure to liquidity risk primarily relates to annual redemption of units. As per the Declaration of Trust, the Trust has 35 days' notice to make a redemption payment, during which time the Investment Manager can raise sufficient cash to satisfy the payment. In addition, the Trust has the right to resell units tendered for redemption. In addition, the Trust retains sufficient cash to maintain liquidity.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 9. Financial instruments risk management (continued):

### (c) Market risk:

#### (i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than the Canadian dollar, which represents the functional and presentational currency of the Trust. The Trust may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies. The Trust's exposure to another currency is as follows:

2015:

Currency	Exposure			Impact on net assets attributable to holders of redeemable units		
	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	\$ (1,902,332)	\$ 2,603,199	\$ 700,867	\$ (19,023)	\$ 26,032	\$ 7,009
% of net assets attributable to holders of redeemable units	(8.3)	11.4	3.1	(0.1)	0.1	–

2014:

Currency	Exposure			Impact on net assets attributable to holders of redeemable units		
	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	\$ (7,818)	\$ 6,696,934	\$ 6,689,116	\$ (78)	\$ 66,969	\$ 66,891
% of net assets attributable to holders of redeemable units	–	32.4	32.4	–	0.3	0.3

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 9. Financial instruments risk management (continued):

As at December 31, 2015, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to holders of redeemable units would have decreased or increased, respectively, by approximately 0.0% (\$7,009) (2014 - 0.3% (\$66,891)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### (ii) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is no sensitivity to interest rate fluctuations on any cash balances.

As the Trust has significant exposure to high yield and defaulted bonds with no exposure to government bonds, its bond investments tend to be affected more by changes in overall economic growth and company-specific fundamentals rather than changes in interest rates. However, high yield bonds do have a degree of interest rate risk, which is illustrated in the table below.

As at December 31, 2015, the Trust's exposure to debt instruments by maturity and the impact on its net assets attributable to holders of redeemable units if the yield curve is shifted in parallel by an increase of 25-basis-points ("bps"), holding all other variables constant ("sensitivity"), would be as follows:

	2015	2014
<b>Market* by maturity date:</b>		
1 year or less	—	—
1 - 3 years	4,065	377,380
3 - 5 years	—	1,340,123
More than 5 years	—	—
<b>Sensitivity to 25bps yield change increase or decrease net assets</b>	<b>15</b>	<b>9,612</b>

\*Excludes cash, defaulted bonds and bonds to be converted to equity.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 9. Financial instruments risk management (continued):

In practice, actual results may differ from the above sensitivity analysis and the difference could be material.

### (iii) Other price risk:

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from credit risk, interest rate risk or currency risk). All investments represent a risk of loss of capital. The Investment Manager of the Trust moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Trust's investment objectives and strategy. The Trust's overall market positions are monitored on a regular basis by the Investment Manager.

As at December 31, 2015, 39.6% (2014 - 51.0%) of the Trust's net assets attributable to holders of redeemable units were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately 4.0% (\$906,785) (2014 - 5.1% (\$1,050,792)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

## 10. Fair value measurements:

Financial instruments are measured at fair value using a three-tier hierarchy based on inputs used to value the Trust's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in public markets for identical assets or liabilities;
- Level 2 – dealer-quoted prices in over-the-counter markets for identical assets or liabilities, or inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 10. Fair value measurements (continued):

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following table presents the Trust's financial instruments that have been measured at fair value, on a recurring basis:

2015	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 381,592	\$ 2,318,805	\$ –	\$ 2,700,397
Equities	8,686,258	–	5,162,893	13,849,151
Warrants and options	–	–	–	–
Forward contract	–	63,000	–	63,000
	<b>\$ 9,067,850</b>	<b>\$ 2,381,805</b>	<b>\$ 5,162,893</b>	<b>\$ 16,612,548</b>

2014	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 1,828,845	\$ 2,088,771	\$ –	\$ 3,917,616
Equities	8,676,753	–	3,622,844	12,299,597
Warrants and options	2,325	–	–	2,325
	<b>\$ 10,507,923</b>	<b>\$ 2,088,771</b>	<b>\$ 3,622,844</b>	<b>\$ 16,219,538</b>

The Trust did not have any transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy in 2015 or 2014.

The table below shows a reconciliation of the opening and closing balance of financial instruments recorded in Level 3:

	Beginning of year, December 31, 2014	Realized fair value gain	Unrealized fair value gain	Sales or purchases	End of year, December 31, 2015
Specialty Foods Group - equity	\$ 3,622,844	\$ –	\$ 1,540,049	\$ –	\$ 5,162,893

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 10. Fair value measurements (continued):

	Beginning of year, December 31, 2013	Realized fair value gain	Unrealized fair value gain	Sales or purchases	End of year, December 31, 2014
Specialty Foods Group - warrant	\$ 2,511,533	\$ -	\$ -	\$ (2,511,533)	\$ -
Specialty Foods Group - equity	-	-	1,111,311	2,511,533	3,622,844
	\$ 2,511,533	\$ -	\$ 1,111,311	\$ -	\$ 3,622,844

The tables below set out information about significant unobservable inputs used as at December 31, 2015 and 2014 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value at December 31, 2015	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	\$ 5,162,893	Present value of expected future distributions received	EBITDA multiple	5.25x EBITDA. No alternative assumption to disclose.	The estimated fair value would increase (decrease) by \$266,082 or 5.2% for each 0.5x increase (decrease) in the EBITDA multiple.
			Discount rate	3% to 10% discount rate (7.2% weighted average).	The estimated fair value would increase (decrease) by \$38,099 or 0.7% for each 100-bps increase (decrease) in the discount rate.

Description	Fair value at December 31, 2014	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	\$ 3,622,844	Present value of expected future distributions received	EBITDA multiple	5.0x EBITDA. No alternative assumption to disclose.	The estimated fair value would increase (decrease) by \$144,181 or 4.0% for each 0.5x increase (decrease) in the EBITDA multiple.
			Discount rate	3% to 10% discount rate (7% weighted average).	The estimated fair value would increase (decrease) by \$19,778 or 0.5% for each 100-bps increase (decrease) in the discount rate.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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### 10. Fair value measurements (continued):

The Investment Manager is responsible for performing the fair value measurements included in the financial statements of the Trust, including Level 3 measurements. The Investment Manager obtains pricing for Level 3 financial instruments from a third party pricing vendor, which is reviewed and approved by the Investment Manager.

Financial instruments not measured at fair value:

- (a) The cash and cash equivalents, interest and dividends receivable, accounts payable and accrued liabilities, management and administrative fees payable and incentive fee payable are short-term financial assets and financial liabilities whose carrying amounts approximate fair values.

Cash and cash equivalents and interest and dividends receivable include the contractual amounts for settlement of trades and other obligations due to the Trust. Accruals represent the contractual amounts and obligations due by the Trust for settlement of trades and expenses.

- (b) The Trust's redeemable units are measured at the redemption amount and are considered a residual interest in the assets of the Trust after deducting all of its liabilities.

The redemption value of redeemable units is calculated based on the net difference between total assets and all other liabilities of the Trust in accordance with the Declaration of Trust. The units are redeemable annually, at the holders' option, for cash equal to the proportionate share of the Trust's net asset value attributable to the share class as described in the Declaration of Trust and in note 5(c) of these financial statements.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 11. Net gain (loss) from financial assets at FVTPL:

	2015	2014
Net realized gain on financial assets:		
Financial assets held-for-trading	\$ —	\$ 139,820
Financial assets designated at FVTPL	1,199,238	634,174
	<u>1,199,238</u>	<u>773,994</u>
Net change in unrealized gain (loss) on financial assets:		
Financial assets held-for-trading	(2,325)	(8,875)
Financial assets designated at FVTPL	1,648,752	(1,468,153)
Foreign	63,000	—
	<u>1,709,427</u>	<u>(1,477,028)</u>
	<u>\$ 2,908,665</u>	<u>\$ (703,034)</u>

The realized gain from financial assets at FVTPL represents the difference between the carrying amount of the financial asset at the beginning of the reporting year, or the transaction price if it was purchased during the reporting year, and its sale or settlement price.

The unrealized gain (loss) represents the difference between the carrying amount of a financial asset at the beginning of the reporting year, or the transaction price if it was purchased during the reporting year, and its carrying amount at the end of the reporting year.

## 12. Increase (decrease) in net assets attributable to holders of redeemable units per unit:

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the years ended December 31, 2015 and 2014 is calculated as follows:

	2015	2014
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 2,804,209	\$ (402,560)
Weighted average of redeemable units outstanding	1,875,192	1,684,094
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$ 1.67	\$ (0.24)

## **RAVENSOURCE FUND**

Notes to Financial Statements (continued)

Years ended December 31, 2015 and 2014

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### **13. Capital disclosures:**

The Investment Manager has policies and procedures in place to manage the capital of the Trust in accordance with the Trust's investment objectives, strategies and restrictions, as detailed in the offering document. Information about the capital is described in the statements of changes in net assets attributable to holders of redeemable units and the Trust does not have externally imposed capital requirements.



EXHIBIT 18 TO THE  
CROSS-  
EXAMINATION  
OF S. REID

Financial Statements of

## **RAVENSOURCE FUND**

Years ended December 31, 2017 and 2016

# RAVENSOURCE FUND

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Years ended December 31, 2017 and 2016

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Independent Auditors' Report

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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Ravensource Fund

We have audited the accompanying financial statements of Ravensource Fund, which comprise the statements of financial position as at December 31, 2017 and 2016, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



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*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ravensource Fund as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

March 2, 2018  
Toronto, Canada

# RAVENSOURCE FUND

## Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 1,796,026	\$ 3,209,544
Financial assets designated at fair value through profit or loss (note 10) (cost - \$20,984,925; 2016 - \$16,205,732)	23,228,312	21,057,920
Financial assets held for trading (note 10) (cost - \$129,333; 2016 - \$8,933)	176,831	10,878
Interest and dividends receivable	84,505	44,061
	<u>25,285,674</u>	<u>24,322,403</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	82,786	79,288
Management and administrative fees payable (note 4(b) and (c))	38,322	37,493
Incentive fee payable (note 4(d))	116,997	139,585
	<u>238,105</u>	<u>256,366</u>
Net assets attributable to holders of redeemable units	\$ 25,047,569	\$ 24,066,037
Number of redeemable units outstanding (note 6)	1,672,870	1,672,870
Net assets attributable to holders of redeemable units per unit (note 5)	\$ 14.97	\$ 14.39

See accompanying notes to financial statements.

Approved on behalf of the Trust:



Stormoway Portfolio Management Inc.,  
as Investment Manager

# RAVENSOURCE FUND

## Statements of Comprehensive Income

Years ended December 31, 2017 and 2016

	2017	2016
Income:		
Dividends and income trust distributions	\$ 150,440	\$ 185,775
Interest income for distribution purposes	87,554	22,750
	237,994	208,525
Net change in fair value on financial assets at fair value through profit or loss (note 11):		
Net realized gain (loss) on financial assets, including foreign exchange adjustments	4,430,494	(83,571)
Net change in unrealized gain (loss) on financial assets	(2,563,250)	2,077,917
Change in unrealized loss on forward contract		(63,000)
	1,867,244	1,931,346
	2,105,238	2,139,871
Expenses (income):		
Management fees (note 4(b))	177,938	172,868
Administrative fees (note 4(c))	95,812	93,083
Impact of management and administrative fee reductions (note 4(a))	(128,413)	(129,380)
Incentive fee (note 4(d))	116,997	139,585
Interest expense	57,289	23,825
Legal fees	45,554	24,115
Accounting fees	29,407	27,344
Audit fees	29,388	23,504
Listing fees	22,583	17,000
Transaction costs	13,698	4,943
Investor relations fees (note 4(e))	13,560	13,560
Trust administration and transfer agency fees	12,026	20,000
Independent review committee fees	11,800	11,238
Other	7,305	25,167
	504,744	466,852
Increase in net assets attributable to holders of redeemable units	\$ 1,600,494	\$ 1,873,019
Average number of units outstanding	1,672,870	1,874,109
Increase in net assets attributable to holders of redeemable units per unit	\$ 0.96	\$ 1.00

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

Years ended December 31, 2017 and 2016

	2017	2016
Net assets attributable to holders of redeemable units, beginning of year	\$ 24,066,037	\$ 22,921,106
Increase in net assets attributable to holders of redeemable units	1,600,494	1,673,019
Capital transactions:		
Units tendered for redemption (note 5(c))	(1,432,526)	(25,957)
Recirculation of units tendered for redemption (note 5(c))	1,432,526	—
Distributions paid to holders of redeemable units (note 5(d))	(618,962)	(502,131)
	(618,962)	(528,088)
Net assets attributable to holders of redeemable units, end of year	\$ 25,047,569	\$ 24,066,037

See accompanying notes to financial statements.



# RAVENSOURCE FUND

## Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows used in operating activities:		
Increase in net assets attributable to holders of redeemable units	\$ 1,600,494	\$ 1,673,019
Adjustments for non-cash items:		
Net realized loss (gain) on financial assets, including foreign exchange adjustments	(4,430,494)	83,571
Net change in unrealized loss (gain) on financial assets	2,563,250	(2,077,917)
Change in unrealized loss on forward contract	—	63,000
Change in non-cash balances:		
Increase in interest and dividends receivable	(40,444)	(9,068)
Increase in accounts payable and accrued liabilities	3,498	9,772
Increase (decrease) in incentive, management and administrative fees payable	(21,759)	33,081
Proceeds from sale of investments	6,014,058	1,141,185
Purchase of investments	(6,643,230)	(3,648,394)
	(954,627)	(2,731,761)
Cash flows used in financing activities:		
Units tendered for redemption	(1,432,526)	(25,967)
Recirculation of units tendered for redemption	1,432,526	—
Distributions paid to holders of redeemable units, net of reinvested distributions	(618,962)	(502,131)
	(618,962)	(528,088)
Decrease in cash and cash equivalents	(1,573,589)	(3,259,839)
Foreign exchange gain (loss) on cash	180,071	(17,695)
Cash and cash equivalents, beginning of year	3,209,514	6,487,078
Cash and cash equivalents, end of year	\$ 1,796,026	\$ 3,209,544
Supplemental cash flow information:		
Interest received	\$ 59,042	\$ 24,285
Dividends received	138,508	200,076

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Schedule of Investments

December 31, 2017

Number of shares/units	Investments owned	Average cost	Fair value	Fair value as % of net asset value
Canadian equities:				
47,700	CanWel Building Materials Group Ltd.	\$ 341,059	\$ 351,072	1.40
2,863	Cardinal Energy Ltd.	3,425	14,573	0.06
228,100	Chinook Energy Inc.	102,645	54,744	0.22
8,028	Connacher Oil and Gas Ltd.	223,500	—	—
1,000	Crystallex International Corp.	90	—	—
315,843	Glacier Media Inc.	483,043	173,714	0.69
1,146,900	Grenville Strategic Royalty Corp.	172,519	114,690	0.46
21,100	GVIC Comm - Class B	17,081	2,743	0.01
2,500	GVIC Comm - Class C	18,045	1,800	0.01
110,365	InPlay Oil Corp.	211,901	209,694	0.84
40,393	Manitok Energy Inc.	4,241	1,414	0.01
1,750,000	NAPEC Inc.	1,473,750	3,377,500	13.49
855,000	Northern Frontier Corp.	1,187,071	—	—
58,400	NuVista Energy Ltd.	312,183	466,616	1.86
248,033	Paza Retail REIT	326,218	1,054,140	4.21
2,378	Point Loma Resources Ltd.	261	583	—
174,200	Supremex Inc.	396,824	763,900	3.13
83,900	Ten Peaks Coffee Co Inc.	237,487	555,418	2.22
		5,511,353	7,162,601	28.61
U.S. equities:				
296,667	Firm Capital American Realty Partners Corp.	2,546,063	2,412,251	9.63
350,000	Genworth Financial Inc.	1,772,831	1,367,972	5.46
271,026	GXI Acquisition Corp. Class A	359,830	343,786	1.37
617,058	GXI Acquisition Corp. Class B	819,242	762,714	3.13
515,766	Old PSG Wind-Down Ltd.	700,858	263,618	1.05
13,157	Quad/Graphics Inc.	595,635	373,858	1.49
1,323,256	SeaCo Ltd.	—	499	—
2,026	Spanish Broadcasting System Inc.	—	—	—
	Preferred Shares 10.75%	1,923,771	1,795,054	7.17
15,062	Specialty Foods Group LLC	—	18,929	0.08
28,333	Specialty Foods Group LLC Class 1	—	—	—
	Preferred Shares	—	1,175,032	4.69
90,653	Specialty Foods Group LLC Class 2	—	—	—
	Preferred Shares	—	2,439,481	9.74
		8,718,230	10,973,194	43.61

# RAVENSOURCE FUND

Schedule of Investments (continued)

December 31, 2017

Number of shares/units	Investments owned	Average cost	Fair value	Fair value as % of net asset value
Fixed income:				
10,128	ConocoPhillips Oil & Gas Ltd 12.00% due Aug 31, 2018 *	12,389	—	—
3,650,000	Crystalex International Corp 9.375% due Dec 30, 2011 *	1,889,122	2,981,639	11.91
1,750,000	Dealnet Capital Corp 6% due Dec 22, 2019	1,454,600	1,454,600	5.81
1,000,000	Delphi Holdings Corp 6.55% due Jun 15, 2006 *	670,580	—	—
1,043,000	Exal Energy Corp 7.75% due Mar 31, 2017 *	352,036	—	—
6,000	Gasfrac Energy Services Inc. 7% due Feb 28, 2017 *	4,207	—	—
796,000	Grenville Strategic Royalty Corp. 8% due Dec 31, 2019	630,758	636,720	2.54
541,260	GuestLogix Inc 7% due Dec 31, 2019 *	—	19,558	0.08
4,284,000	Ivanhoe Energy Inc. 5.75% due Jun 30, 2016 *	1,776,864	—	—
		6,790,576	5,092,517	20.34
Warrants:				
7,000,000	Dealnet Capital Corp. \$0.12 Dec 22, 2019	120,400	175,700	0.70
8,375	Dundee Corp. \$6.00 Jun 30, 2019	8,933	1,131	—
		129,333	176,831	0.70
Net investments owned		21,149,492	23,405,143	93.46
Brokerage commissions		(35,234)	—	—
Total portfolio of investments		<u>\$ 21,114,258</u>	23,405,143	93.46
Other net assets			1,642,426	6.54
Net assets			<u>\$ 25,047,569</u>	<u>100.00</u>

\* Defaulted

See accompanying notes to financial statements.

# RAVENSOURCE FUND

Notes to Financial Statements

Years ended December 31, 2017 and 2016

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## 1. Trust organization and nature of operations:

The Ravensource Fund (the "Trust") is a closed-end investment trust which was created under the laws of the Province of Ontario pursuant to a Declaration of Trust, dated April 28, 1997, as amended January 15, 2001 and as further amended and restated as at August 22, 2003, July 1, 2008 and July 3, 2015. The Trust's units are listed on the Toronto Stock Exchange (RAV.UN).

Computershare Trust Company of Canada acts as trustee for the Trust (the "Trustee"). At a special meeting of the Trust's unitholders, Stomoway Portfolio Management Inc., an Ontario corporation, was appointed as the investment manager ("Investment Manager") of the Trust, effective July 1, 2008. The Trust's principal place of business is located at 30 St. Clair Avenue West, Suite 901, Toronto, Ontario M4V 3A1.

The Investment Manager provides portfolio management and administrative services to the Trust, subject to the overall supervision of the Trustee. The Investment Manager is authorized to invest the Trust's assets and make investment decisions on behalf of the Trust. Senior executives of the Investment Manager own 158,044 (2016 - 166,800) units, representing 9.4% (2016 - 9.9%) of the outstanding units as at December 31, 2017.

The capital of the Trust is represented by the net assets attributable to holders of redeemable units of the Trust, and comprises investments, cash and cash equivalents, and interest and dividends receivable, offset by liabilities of the Trust. As more fully outlined in the Declaration of Trust, the principal investment objective of the Trust is to achieve absolute annual returns, with an emphasis on capital gains, through investment in selected North American securities. The Trust will invest its property primarily in North American high yield and distressed debt securities, and in equity securities. The success of the Trust depends on the investment decisions of the Investment Manager and will be influenced by a number of risk factors, including liquidity risk, market risk, investment in options, and leverage from borrowed funds.

## 2. Basis of presentation:

The policies applied in these financial statements are based on International Financial Reporting Standards ("IFRS") in effect as at March 2, 2018, which is the date on which the financial statements were authorized for issue by the Investment Manager.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 3. Significant accounting policies:

Accounting standard issued but not yet adopted:

The following new standard and amendments to existing standards were issued by the International Accounting Standards Board ("IASB"):

The final version of IFRS 9, Financial Instruments ("IFRS 9"), was issued by the IASB in July 2014 and will replace International Accounting Standard 39, Financial Instruments Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Trust plans to adopt the new standard on the required effective date. The Trust is still assessing the impact of IFRS 9 on the classification of financial assets and financial liabilities. However, the Trust does not believe adoption of this new standard will have a significant impact to the Trust's financial statements.

The following is a summary of the significant accounting policies followed by the Trust:

### (a) Valuation of investments:

Securities listed upon a recognized public stock exchange are valued at their bid prices on the valuation dates. In a situation where, in the opinion of the Investment Manager, a market quotation for a security is inaccurate, unreliable, or not readily available, the fair value of the security is estimated using valuation techniques generally used in the industry. These techniques take into account market factors, valuation of similar securities and interest rates.

Short-term notes, treasury bills, bonds, asset-backed securities and other debt instruments traded in over-the-counter markets are valued at bid quotations provided by recognized investment dealers.

Securities not listed upon a recognized public stock exchange or not traded in over-the-counter markets are valued using valuation techniques, which take into account market factors, valuation of similar securities and interest rates.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

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## 3. Significant accounting policies (continued):

### (b) Valuation of forward contract:

The Trust may enter into a forward contract to hedge itself against foreign currency exchange rate risk for its foreign currency-denominated assets and liabilities in case of adverse foreign currency fluctuations against the U.S. dollar and as part of its investment strategy.

Forward contract currency transactions are contracts or agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency contracts are the inability of counterparties to meet the terms of their respective contracts and movements in fair value and exchange rates. The Trust considers the credit risk of the counterparty for forward contracts in evaluating potential credit risk and selecting counterparties to forward contracts.

### (c) Classification:

The Trust classifies its investments in debt and equity securities and derivatives as financial assets and financial liabilities at fair value through profit or loss ("FVTPL").

This category has two sub-categories: financial assets or financial liabilities held-for-trading; and those designated at FVTPL at inception.

#### (i) Financial assets and financial liabilities held-for-trading:

A financial asset or financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives, including warrants and options, are categorized as held-for-trading regardless of the Trust's intention to hold the security for a prolonged period of time. The Trust does not classify any derivatives as hedges in a hedging relationship.

#### (ii) Financial assets and financial liabilities designated at FVTPL :

Financial assets and financial liabilities classified as FVTPL are financial instruments that are not classified as held-for-trading and their performance is evaluated on a fair value basis in accordance with the Trust's documented investment strategy.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

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### 3. Significant accounting policies (continued):

The Trust recognizes financial instruments at fair value. Purchases and sales of financial assets are recognized at their trade dates. Aside from its holdings of warrants and other derivative investments, the Trust's investments have been designated at FVTPL. The Trust's obligation for net assets attributable to holders of redeemable units is presented on the financial statements at the redemption amount as determined according to the Declaration of Trust. All other financial assets and financial liabilities are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Trust's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value for transactions with unitholders.

#### (d) Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Trust and its custodian have agreed that in the event of a default, the custodian reserves the right to sell any and all property the Trust holds with the custodian or any of its affiliates, to offset any indebtedness the Trust may have.

#### (e) Recognition/derecognition:

The Trust recognizes financial assets or financial liabilities designated as trading securities on a trade date basis - the date it commits to purchase or sell the instruments. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statements of comprehensive income.

Other financial assets are derecognized when, and only when, the contractual rights to the cash flows from the asset expire; or when the Trust transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Trust derecognizes financial liabilities when, and only when, the Trust's obligations are discharged, cancelled or expired.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

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## 3. Significant accounting policies (continued):

### (f) Income recognition:

Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Trust accounted for on an accrual basis. The Trust does not amortize premiums paid or discounts received on the purchase of fixed income securities, except for zero coupon bonds, which are amortized on a straight-line basis.

Realized gain (loss) on sale of financial assets and the change in unrealized gain (loss) on financial assets are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

### (g) Income taxes:

The Trust is taxable as a mutual fund trust under the Income Tax Act (Canada) on its income, including net realized capital gains in the taxation year, which is not paid or payable to its unitholders as at the end of the taxation year. It is the intention of the Trust to distribute all of its net income and sufficient net realized capital gains so that the Trust will not be subject to income taxes.

### (h) Foreign currency translation:

Transactions in currencies other than the Canadian dollar are translated at the rates of exchange prevailing at the transaction dates. Assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting dates. The functional currency of the Trust is the Canadian dollar. Resulting exchange differences are recognized in the statements of comprehensive income in net realized gain (loss) on financial assets and net change in unrealized gain (loss) on financial assets.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

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## 3. Significant accounting policies (continued):

### (i) Transaction costs:

Transaction costs are expensed and are included in the statements of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

### (j) Use of estimates:

The preparation of financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

### (k) Cash and cash equivalents:

Cash and cash equivalents represent cash positions, as well as any trades that are in transit as at December 31, 2017 and 2016.

### (l) Net assets attributable to holders of redeemable units per unit:

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class outstanding at the end of the year.

### (m) Increase in net assets attributable to holders of redeemable units per unit:

Increase in net assets attributable to holders of redeemable units per unit is based on the increase in net assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the year.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 4. Related party transactions:

### (a) Specialty Foods Group Inc. Services Agreement:

The Trust has an investment in the securities of Specialty Foods Group LLC ("SFG"). Another fund managed by the Investment Manager also has an investment in SFG securities. A senior executive of the Investment Manager is also a member of the Board of Managers of SFG. During 2012, the Investment Manager entered into a services agreement with SFG (the "SFG Services Agreement"), whereby the Investment Manager is to provide strategic advice and analysis to SFG and, in return, will earn a fee for these services. As per its internal policy and approved by the Trust's Independent Review Committee, the Investment Manager reduced the management fees and administrative fees that it charges to the Trust in order to pass along the economic benefit of the fees earned by the Investment Manager from the SFG Services Agreement in an amount proportionate to the Trust's relative investment in SFG securities. During the year ended December 31, 2017, the Investment Manager reduced management fees by \$73,866 (2016 - \$74,422) and reduced administrative fees by \$39,774 (2016 - \$40,073), which fees and costs would have been subject to harmonized sales tax ("HST"). Therefore, the total impact of fee reductions amounted to \$128,413, inclusive of HST (2016 - \$129,380). The Investment Manager will continue to reduce the management fee and administrative fees accordingly, for so long as the Trust is invested in SFG securities and the Investment Manager continues to receive fees under the SFG Services Agreement.

### (b) Management fees:

The management fees payable to the Investment Manager are based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Management fee
Up to and including \$250,000,000	0.65% plus HST
Between \$250,000,000 and \$500,000,000	0.60% plus HST
\$500,000,000 and more	0.55% plus HST

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 4. Related party transactions (continued):

The net management fees for the year ended December 31, 2017 amounted to \$94,469 (2016 - \$88,771). The Investment Manager reduced the net management fees by \$73,866 (2016 - \$74,422), as described in further detail in (a). In the absence of the net management fee reduction, total net management fees would have amounted to approximately \$177,938, inclusive of HST (2016 - \$172,868). The net management fees payable as at December 31, 2017 amounted to \$24,909, including HST (2016 - \$24,370).

### (c) Administrative fees:

Subject to the supervision of the Trustee, the Investment Manager agrees to be responsible for and provide certain administrative services to the Trust. The Trust will pay the Investment Manager a fee based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Administrative fee
Up to and including \$250,000,000	0.35% plus HST
Between \$250,000,000 and \$500,000,000	0.30% plus HST
\$500,000,000 and more	0.25% plus HST

The net administrative fees for the year ended December 31, 2017 amounted to \$50,868 (2016 - \$47,800). The Investment Manager reduced the net administrative fees by \$39,774 (2016 - \$45,283), as described in further detail in (a). In the absence of the net administrative fees reduction, total net administrative fees for 2017 would have amounted to approximately \$95,812, inclusive of HST (2016 - \$93,083). The net administrative fees payable as at December 31, 2017 amounted to \$13,413, including HST (2016 - \$13,123).

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

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## 4. Related party transactions (continued):

### (d) Incentive fee:

An incentive fee will be payable to the Investment Manager in any year, equal to 20% of the amount by which the net asset attributable to holders of redeemable units per unit at the end of the year, adjusted for contributions, distributions and redemptions during the year, exceeds the net assets attributable to holders of redeemable units per unit at the beginning of the year by more than 5%, plus any shortfall from the prior year. This fee is accrued monthly but calculated and paid annually. Incentive fee expense for the year ended December 31, 2017 amounted to \$116,997 (2016 - \$139,585), inclusive of HST. The incentive fee payable as at December 31, 2017 amounted to \$116,997, including HST (2016 - \$139,585).

### (e) Investor relations fees:

The Investment Manager is paid monthly investor relations fees of \$1,000 plus applicable sales tax for unitholder reporting and other services provided under a service agreement. The aggregate investor relations fees for the year ended December 31, 2017 amounted to \$13,560, inclusive of HST (2016 - \$13,560).

## 5. Unitholders' entitlements:

The unitholders' entitlements with respect to the net assets attributable to holders of redeemable units and distribution of income are generally as follows:

### (a) Entitlement in respect of net assets attributable to holders of redeemable units:

A pro rata share of the net assets attributable to holders of redeemable units of the Trust in the proportion that each unitholders' equity bears to the aggregate unitholders' equity.

### (b) Tax designations and elections:

The Trustee shall file all tax returns, on behalf of the Trust, required by law.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

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### 5. Unitholders' entitlements (continued):

#### (c) Redemption of redeemable units:

By delivering an Annual Redemption Request to be received by the Trust's registrar and transfer agent on or before the twentieth business day prior to the applicable annual redemption date, being the valuation date following August 31 in any year ("Annual Redemption Date"), subject to compliance with applicable laws and the provisions, unitholders shall be entitled to require the Trust to redeem some or all of their units outstanding as net assets attributable to holders of redeemable units as of the Annual Redemption Date.

#### (d) Distributions:

The Trust intends to make semi annual distributions to unitholders of record as of the last valuation date of each of June and December in each calendar year, of such amount per unit as the Trustee, upon consultation with the Investment Manager, may determine. It is anticipated that the annual distribution will be at least equal to the net capital gains plus the net income of the Trust for that year, net of any tax losses brought forward from prior years.

During the year, the Trust made distributions of \$0.22 per unit on June 30, 2017 and \$0.15 per unit on December 29, 2017 for total distributions of \$618,962 (2016 - \$502,131).

As at December 31, 2017, the Trust had cumulative net capital losses of \$13,896,501 (2016 - \$18,780,088) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

As at December 31, 2017, the Trust had non-capital losses of \$320,011 (2016 - \$45,250) for income tax purposes that may be carried forward and applied to reduce future years' taxable income.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 6. Redeemable units of the Trust:

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets attributable to holders of redeemable units of the Trust. Each redeemable unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net assets attributable to holders of redeemable units per unit calculated on the redemption date.

	2017	2016
Redeemable units, beginning of year	1,672,870	1,674,670
Redeemable units tendered for redemption	(103,698)	(1,800)
Recirculation of redeemable units tendered for redemption	103,698	—
Redeemable units, end of year	1,672,870	1,672,870

## 7. Expenses:

The Investment Manager has the power to incur and make payment out of the Trust's property any charges or expenses which, in the opinion the Investment Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Declaration of Trust, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust will be responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

## 8. Indemnification of the Investment Manager:

The Trust has indemnified the Investment Manager (and each of its directors and officers) from and against all liabilities and expenses, reasonably incurred by the Investment Manager, other than liabilities and expenses incurred as a result of the Investment Manager's willful misconduct, bad faith or negligence. There were no claims or expenses against the Investment Manager requiring indemnification during the year ended December 31, 2017 (2016 - nil).

## 9. Financial instruments risk management:

Managing the risks of the investment portfolio is a critical element of the investment management process. The Investment Manager's overall risk management process seeks to minimize the potentially adverse effect of risk on its financial performance in a manner that is consistent with the Trust's investment mandate. To accomplish this goal, the Investment Manager utilizes a range of well-established tools and methods to manage the risk of the Trust.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

### 9. Financial instruments risk management (continued):

With the ability of taking both long and short positions, the Trust may incur both interest expense and borrowing fees. While the use of borrowed funds can substantially improve the return on invested capital, its use may also increase the adverse impact to which the investment portfolio of the Trust may be subjected by increasing the Trust's exposure to capital risk and higher current expenses. The Trust did not use any borrowed funds as at December 31, 2017 and 2016.

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

#### (a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust. Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The market value of debt instruments and derivatives includes consideration of the creditworthiness of the issuer and, accordingly, represents the majority of the credit risk exposure of the Trust. As at December 31, 2017, the market value of the Trust's debt portfolio was \$6,092,517 (20.3% of net assets attributable to holders of redeemable units) (2016: \$3,643,509 (15.1% of net assets attributable to holders of redeemable units)), and comprised of non-rated bonds (8.3% and 0.5% of net assets attributable to holders of redeemable units for December 31, 2017 and 2016, respectively) and defaulted bonds (12.0% and 14.6% of net assets attributable to holders of redeemable units for December 31, 2017 and 2016, respectively).

All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold takes place once the broker has received payment, and purchases are paid for once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 9. Financial instruments risk management (continued):

### (b) Liquidity risk:

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligations on time or at a reasonable price.

The Trust's exposure to liquidity risk primarily relates to annual redemption of units. As per the Declaration of Trust, the Trust has a 35 day notice to make a redemption payment, during which time, the Investment Manager can raise sufficient cash to satisfy the payment. In addition, the Trust has the right to resell units tendered for redemption and generally retains sufficient cash to maintain liquidity.

### (c) Market risk:

#### (i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than the Canadian dollar, which represents the functional and presentational currency of the Trust. The Trust may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies. The Trust's exposure to another currency is as follows:

2017:

Currency	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units		
	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	\$ (3,035,736)	\$ 13,954,033	\$ 10,918,297	\$ (30,357)	\$ 139,510	\$ 109,151
% of net assets attributable to holders of redeemable units	(12.1)	55.7	43.6	(0.1)	0.6	0.5



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 9. Financial instruments risk management (continued):

2016:

Currency	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units		
	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	\$ (3,992,394)	\$ 15,862,888	\$ 8,890,484	\$ (38,824)	\$ 128,829	\$ 88,905
% of net assets attributable to holders of redeemable units	(10.6)	53.5	30.9	(0.2)	0.5	0.3

As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to holders of redeemable units would have decreased or increased, respectively, by approximately 0.5% (\$109,191) (2016 - 0.3% (\$88,905)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### (ii) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is no sensitivity to interest rate fluctuations on any cash balances.

The Trust has exposure to high yield bonds (8.3% of net assets (2016 - 0.5%)) and defaulted bonds (12.0% of net assets (2016 - 14.6%)) with no exposure to government bonds. Its bond investments tend to be affected more by changes in overall economic growth and company-specific fundamentals rather than changes in interest rates. Changes in interest rates do not directly affect the market value of defaulted bonds as the underlying issuers have stopped making interest payments and thus do not offer a yield component to the holder. However, the Trust's high yield bonds do have a degree of interest rate risk, which is summarized in the table below.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 9. Financial instruments risk management (continued):

As at December 31, 2017, the Trust's exposure to interest rate sensitive debt instruments by maturity and the impact on its net assets attributable to holders of redeemable units if the yield curve is shifted in parallel by an increase of 25-basis-points ("bps"), holding all other variables constant sensitivity, would be as follows:

	2017	2016
<b>Market by maturity date*:</b>		
1 - 3 years	\$ 2,091,320	\$ 161,876
<b>Sensitivity to 25 bps yield change increase or decrease net assets</b>	<b>\$ 9,006</b>	<b>\$ 1,141</b>

\*Excludes cash, defaulted bonds and bonds to be converted to equity.

In practice, actual results may differ from the above sensitivity analysis and the difference could be material.

### (iii) Other price risk:

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from credit risk, interest rate risk or currency risk). All investments represent a risk of loss of capital. The Investment Manager of the Trust moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Trust's investment objectives and strategy. The Trust's overall market positions are monitored on a regular basis by the Investment Manager.

As at December 31, 2017, 47.7% (2016 - 45.5%) of the Trust's net assets attributable to holders of redeemable units were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately 4.8% (\$1,195,503) (2016 4.5% (\$1,084,343)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 10. Fair value measurements:

Financial instruments are measured at fair value using a three tier hierarchy based on inputs used to value the Trust's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in public markets for identical assets or liabilities;
- Level 2 - dealer-quoted prices in over-the-counter markets for identical assets or liabilities, or inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following tables present the Trust's financial instruments that have been measured at fair value, on a recurring basis:

2017	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 636,720	\$	\$ 4,455,797	\$ 5,092,517
Equities	11,317,181	1,796,064	5,023,560	18,135,795
Warrants	—	176,831	—	176,831
	\$ 11,953,901	\$ 1,971,885	\$ 9,479,357	\$ 23,405,143

2016	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 127,709	\$ 3,481,621	\$ 34,179	\$ 3,643,509
Equities	10,804,842	—	6,609,569	17,414,411
Warrants and options	10,878	—	—	10,878
	\$ 10,943,429	\$ 3,481,621	\$ 6,643,748	\$ 21,068,798

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 10. Fair value measurements (continued):

During the year ended December 31, 2017, there was one transfer from Level 1 to Level 3 in the amount of \$263,618 as the Old PSG Wind Down Ltd. common shares were delisted from the exchange (2016 - the amount of \$34,179 as Guestlogix debentures were de-listed). There was one transfer from Level 2 to Level 3 in the amount of \$3,430,599 as Crystalex International Corp. debentures were priced using the average of two bid quotes received for the security at December 31, 2017. Also, due to changes in market conditions for one bond investment, a quoted price in an active market became available and as such this investment was transferred from Level 2 to Level 1. The Trust did not have any other transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy in the year ended December 31, 2017 or 2016.

The tables below show a reconciliation of the opening and closing balance of financial instruments recorded in Level 3:

	Beginning of year, January 1, 2017	Transfer from Level 1	Transfer from Level 2	Unrealized fair value gain (loss)	Sales or purchases	End of year, December 31, 2017
SHG - equity Specialty Food Group LLC	\$ 5,406,028	\$ -	\$ -	\$ (2,848,484)	\$ (2,557,562)	\$ -
Specialty Food Group LLC, Class 1 preferred shares	-	-	-	1,175,032	-	1,175,032
Specialty Food Group LLC, Class 2 preferred shares	-	-	-	2,439,481	-	2,439,481
GXI Acquisition Corp - equity	1,203,543	-	-	(77,043)	-	1,126,500
Old PSG Wind Down - equity	-	263,618	-	-	-	263,618
GuestLogix debenture Dealine Capital Corp - debenture	34,179	-	-	13,292	(27,915)	19,558
Crystalex International Corp.	-	-	3,430,599	(448,960)	-	2,981,639
<b>Total</b>	<b>\$ 6,643,748</b>	<b>\$ 263,618</b>	<b>\$ 3,430,599</b>	<b>\$ 272,267</b>	<b>\$ (1,130,875)</b>	<b>\$ 9,476,357</b>

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 10. Fair value measurements (continued):

	Beginning of year, January 1, 2016	Transfer from Level 1	Unrealized fair value gain	Sales or purchases	End of year, December 31, 2016
SFG - equity	\$ 5,162,693	\$ -	\$ 243,133	\$ -	\$ 5,405,826
GuestLogix - debenture		34,179			34,179
CXI Acquisition Corp - equity	-	-	24,471	1,179,072	1,203,543
<b>Total</b>	<b>\$ 5,162,693</b>	<b>\$ 34,179</b>	<b>\$ 267,604</b>	<b>\$ 1,179,072</b>	<b>\$ 6,643,748</b>

The tables below set out information about significant unobservable inputs used as at December 31, 2017 and December 31, 2016 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value, December 31, 2017	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	\$ 3,693,442	Present value of expected future distributions reduced	EBITDA multiple	7.00x EBITDA No alternative assumption to disclose	Estimated fair value would increase (decrease) by \$268,878 or 7.4% for each 0.5x increase (decrease) in the EBITDA multiple
			Discount rate	10%	Estimated fair value would increase (decrease) by \$33,338 or 0.9% for each 100 bps decrease (increase) in the discount rate
Unlisted private equity investments	1,360,110	Not applicable	Transaction price	Not applicable	Not applicable
Unlisted private bonds	1,454,600	Not applicable	Transaction price	Not applicable	Not applicable
Defaulted Bonds	2,901,639	Average of Broker quotes reduced	Broker quotes	\$45 - \$65 per \$100 face value	Estimated fair value would increase (decrease) by \$917,427 or 30.6%
Defaulted bonds	<u>19,550</u>	Not applicable	Monitor's estimate of final distribution	Not applicable	Not applicable
	<b>\$ 5,479,357</b>				

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 10. Fair value measurements (continued):

Description	Fair value, December 31, 2016	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	\$ 5,406,020	Present value of expected future distributions received	EBITDA multiple	5.00x EBITDA No alternative assumption to disclose	Estimated fair value would increase (decrease) by \$288,763 or 5.2% for each 0.5x increase (decrease) in the EBITDA multiple
			Discount rate	3% to 10% discount rate (6.6% weighted average)	Estimated fair value would increase (decrease) by \$31,013 or 0.5% for each 100 bps decrease (increase) in the discount rate
Unlisted private equity investments	1,203,543	Not applicable	Recent transaction	Not applicable	Not applicable
Defaulted bonds	<u>34,178</u>	Not applicable	Broker quotes	Not applicable	Not applicable
	\$ 6,643,740				

The Investment Manager is responsible for performing the fair value measurements included in the financial statements of the Trust, including Level 3 measurements. The Investment Manager obtains pricing for Level 3 financial instruments from a third party pricing vendor, which is reviewed and approved by the Investment Manager.

Financial instruments not measured at fair value:

- (a) The cash and cash equivalents, interest and dividends receivable, accounts payable and accrued liabilities, management and administrative fees payable and incentive fee payable are short-term financial assets and financial liabilities which carrying amounts approximate fair values.

Cash and cash equivalents and interest and dividends receivable include the contractual amounts for settlement of trades and other obligations due to the Trust. Accruals represent the contractual amounts and obligations due by the Trust for settlement of trades and expenses.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

## 10. Fair value measurements (continued):

- (b) The Trust's redeemable units are measured at the redemption amount and are considered a residual interest in the assets of the Trust after deducting all of its liabilities.

The redemption value of redeemable units is calculated based on the net difference between total assets and all other liabilities of the Trust in accordance with the Declaration of Trust. The units are redeemable annually, at the holders' option, for cash equal to the proportionate share of the Trust's net asset value attributable to the share class, as described in the Declaration of Trust and in note 5(c).

## 11. Net gain from financial assets at FVTPL:

	2017	2016
<b>Net realized gain (loss) on financial assets:</b>		
Financial assets held for trading	\$	\$ 464,000
Financial assets designated at FVTPL	4,430,494	(547,571)
	4,430,494	(83,571)
<b>Net change in unrealized gain (loss) on financial assets:</b>		
Financial assets held-for-trading	45,544	(61,045)
Financial assets designated at FVTPL	(2,608,794)	2,075,962
	(2,563,250)	2,014,917
	<b>\$ 1,867,244</b>	<b>\$ 1,931,346</b>

The realized gain (loss) from financial assets at FVTPL represents the difference between the carrying amount of the financial asset at the beginning of the reporting year, or the transaction price if it was purchased during the reporting year, and its sale or settlement price.

The net change in unrealized gain (loss) on financial assets represents the difference between the carrying amount of a financial asset at the beginning of the reporting year, or the transaction price if it was purchased during the reporting year, and its carrying amount at the end of the reporting year.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2017 and 2016

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**12. Capital disclosures:**

The Investment Manager has policies and procedures in place to manage the capital of the Trust in accordance with the Trust's investment objectives, strategies and restrictions, as detailed in the offering document. Information about the capital is described in the statements of changes in net assets attributable to holders of redeemable units and the Trust does not have externally imposed capital requirements.

**13. Comparative information:**

Certain 2016 information has been reclassified to conform with the financial statement presentation adopted in 2017.





EXHIBIT 19 TO THE  
CROSS-  
EXAMINATION  
OF S. REID

Financial Statements of

## **RAVENSOURCE FUND**

Years ended December 31, 2018 and 2017

# RAVENSOURCE FUND

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Years ended December 31, 2018 and 2017

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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Ravensource Fund

### *Opinion*

We have audited the financial statements of Ravensource Fund (the Entity), which comprise:

- the statements of financial position as at December 31, 2018 and December 31, 2017
- the statements of comprehensive income for the years then ended
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditors' Responsibilities for the Audit of the Financial Statements"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management Report of Fund Performance to be filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.





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Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is James Loewen.

Toronto, Canada

February 28, 2019



# RAVENSOURCE FUND

## Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 8,854,534	\$ 1,796,026
Financial assets at fair value through profit or loss (note 10) (cost - \$17,912,250; 2017 - \$21,114,258)	21,099,245	23,405,143
Interest and dividends receivable	51,812	84,505
	<u>30,005,591</u>	<u>25,285,674</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	97,585	82,786
Foreign exchange contract (note 10)	161,685	—
Management and administrative fees payable (note 4(b) and (c))	53,583	38,322
Incentive fee payable (note 4(d))	884,580	116,997
	<u>1,197,433</u>	<u>238,105</u>
Net assets attributable to holders of redeemable units	<u>\$ 28,808,158</u>	<u>\$ 25,047,569</u>
Number of redeemable units outstanding (note 6)	1,672,870	1,672,870
Net assets attributable to holders of redeemable units per unit (note 5)	<u>\$ 17.22</u>	<u>\$ 14.97</u>

See accompanying notes to financial statements.

Approved on behalf of the Trust:



Stornoway Portfolio Management Inc.,  
as Investment Manager

# RAVENSOURCE FUND

## Statements of Comprehensive Income

Years ended December 31, 2018 and 2017

	2018	2017
Income:		
Dividends and income trust distributions	\$ 288,140	\$ 150,440
Interest income for distribution purposes	276,043	87,554
	564,183	237,994
Net change in fair value on financial assets at fair value through profit or loss and foreign exchange contract:		
Net realized gain on financial assets, including foreign exchange adjustments	4,422,508	4,430,494
Net change in unrealized gain (loss) on financial assets	896,112	(2,563,250)
Net change in unrealized loss on foreign exchange contract	(161,685)	
Net change in fair value on financial assets and foreign exchange contract	5,156,935	1,867,244
	5,721,118	2,105,238
Expenses (income):		
Management fees (note 4(b))	194,286	177,938
Administrative fees (note 4(c))	104,616	95,812
Impact of management and administrative fee reductions (note 4(a))	(94,071)	(128,413)
Incentive fee (note 4(d))	884,580	116,997
Legal fees	100,417	45,554
Interest	90,752	57,289
Independent review committee fees	32,260	11,600
Accounting fees	30,510	29,407
Transaction costs	29,380	13,698
Audit fees	26,577	29,388
Listing fees	19,870	22,583
Trust administration and transfer agency fees	15,309	12,026
Investor relations fees (note 4(e))	13,600	13,560
Other	10,582	7,305
	1,458,658	504,744
Increase in net assets attributable to holders of redeemable units	\$ 4,262,450	\$ 1,800,494
Average number of units outstanding	1,672,870	1,872,870
Increase in net assets attributable to holders of redeemable units per unit	\$ 2.55	\$ 0.96

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

Years ended December 31, 2018 and 2017

	2018	2017
Net assets attributable to holders of redeemable units, beginning of year	\$ 25,047,569	\$ 24,066,037
Increase in net assets attributable to holders of redeemable units	4,262,450	1,600,494
Capital transactions:		
Units tendered for redemption (note 5(c))	(932,867)	(1,432,526)
Recirculation of units tendered for redemption (note 5(c))	932,867	1,432,526
Distributions paid to holders of redeemable units (note 5(d))	(501,861)	(618,962)
	(501,861)	(618,962)
Net assets attributable to holders of redeemable units, end of year	\$ 28,808,158	\$ 25,047,569

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash and cash equivalents, beginning of year	\$ 1,796,026	\$ 3,209,544
Increase (decrease) in cash and cash equivalents during the year:		
Cash flows from (used in) operating activities:		
Increase in net assets attributable to holders of redeemable units	4,267,450	1,600,494
Adjustments for non-cash items:		
Net realized gain on financial assets, including foreign exchange adjustments	(4,477,508)	(4,430,494)
Net change in unrealized (gain) loss on financial assets	(896,112)	2,563,250
Net change in unrealized loss on foreign exchange contract	161,685	—
Change in non-cash balances:		
Decrease (increase) in interest and dividends receivable	32,693	(40,444)
Increase in accounts payable and accrued liabilities	14,799	3,498
Increase (decrease) in incentive, management and administrative fees payable	782,844	(21,759)
Proceeds from sale of investments	11,470,886	6,014,058
Purchase of investments	(3,699,638)	(6,643,230)
Net cash flows from (used in) operating activities	7,707,099	(954,627)
Cash flows from (used in) financing activities:		
Units tendered for redemption	(932,867)	(1,432,526)
Recirculation of units tendered for redemption	932,867	1,432,526
Distributions paid to holders of redeemable units, net of reinvested distributions	(501,861)	(618,962)
Net cash flows used in financing activities	(501,861)	(618,962)
Foreign exchange gain (loss) on cash	(146,730)	160,071
Increase (decrease) in cash and cash equivalents	7,058,508	(1,413,518)
Cash and cash equivalents, end of year	\$ 8,854,534	\$ 1,796,026
Supplemental cash flow information:		
Interest paid	\$ 90,752	\$ 57,289
Interest received	335,695	59,042
Dividends received	255,731	138,508

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Schedule of Investments

December 31, 2018

Shares/unit/ par value	Investments owned	Average cost	Fair value	Fair value as % of net asset value
Canadian equities:				
47,700	CanWel Building Materials Group Ltd	\$ 341,059	\$ 215,127	0.75
1,000	Crystalex International Corp.	80	—	—
85,770	Dundee Corp. Series 3 Preferred Shares	1,024,237	938,187	3.26
72,612	Dundee Corp. Series 2 Preferred Shares	877,560	799,458	2.78
574,896	Flow Capital Corp.	68,988	68,988	0.24
315,843	Glacier Media Inc.	483,043	183,189	0.64
21,100	GVIC Communications Corp. Class B	17,091	1,266	—
22,500	GVIC Communications Corp. Class C	18,045	1,125	—
35,288	Manitok Energy Inc.	4,241	—	—
655,000	Northern Frontier Corp.	1,187,071	—	—
248,033	Plaza Retail REIT	275,946	954,927	3.31
174,200	Supremex Inc.	396,824	425,048	1.48
83,900	Swiss Water Decaffeinated Coffee Inc.	237,487	416,983	1.45
		4,931,681	4,005,293	13.91
U.S. equities:				
296,667	Firm Capital American Realty Partners Corp.	2,546,063	2,519,068	8.74
495,000	Genworth Financial Inc.	2,662,849	3,148,991	10.93
271,026	GXI Acquisition Corp. Class A	359,830	203,976	0.71
817,058	GXI Acquisition Corp. Class B	819,242	484,402	1.61
515,766	Old PSG Wind-Down Ltd.	700,858	366,131	1.27
13,157	Quad/Graphics Inc.	595,635	221,103	0.77
1,323,256	SeaCo Ltd.	—	—	—
2,026	Spanish Broadcasting System Inc. Preferred Shares 10.75%	1,923,771	1,908,398	6.62
90,663	Specialty Foods Group LLC Post closing payment rights	—	196,137	0.68
		9,608,248	9,028,206	31.33
Fixed income:				
3,721,000	Crystalex International Corp. 9.375% due Dec 30, 2011 *	1,989,710	6,457,598	22.42
2,000	Flow Capital Corp. 7% due Jun 30, 2021	1,840	1,500	0.01
1,086,220	Flow Capital Corp. 8% due Dec 31, 2019	868,588	1,010,185	3.50
432,000	Spanish Broadcasting System Inc. 12.5% due Apr 15, 2017 *	546,287	596,379	2.07
		3,406,435	8,065,662	28.00

# RAVENSOURCE FUND

Schedule of Investments (continued)

December 31, 2018

Shares/unit/ par value	Investments owned	Average cost	Fair value	Fair value as % of net asset value
Warrants:				
8,375	Dundee Corp. \$6.00 Jun 30, 2019	8,933	84	—
Net investments owned		17,955,297	21,099,245	73.24
Foreign exchange contract:				
Sell \$11,250,000 USD, buy \$15,168,375 CAD @ 1.3483, March 21, 2019		—	(161,685)	(0.56)
Brokerage commissions		(43,047)		
Total portfolio of investments		\$ 17,912,250	20,937,560	72.50
Other net assets			7,870,598	27.32
Net assets			\$ 28,808,158	100.00

\* Defaulted

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Notes to Financial Statements

Years ended December 31, 2018 and 2017

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### 1. Trust organization and nature of operations:

The Ravensource Fund (the "Trust") is a closed-end investment trust which was created under the laws of the Province of Ontario pursuant to a Declaration of Trust, dated April 28, 1997, as amended January 15, 2001 and as further amended and restated as at August 22, 2003, July 1, 2008 and July 3, 2015. The Trust's units are listed on the Toronto Stock Exchange (RAV.UN).

Computershare Trust Company of Canada acts as trustee for the Trust (the "Trustee"). At a special meeting of the Trust's unitholders, Stomoway Portfolio Management Inc., an Ontario corporation, was appointed as the investment manager (the "Investment Manager") of the Trust, effective July 1, 2008. The Trust's principal place of business is located at 30 St. Clair Avenue West, Suite 901, Toronto, Ontario M4V 3A1.

The Investment Manager provides portfolio management and administrative services to the Trust, subject to the overall supervision of the Trustee. The Investment Manager is authorized to invest the Trust's assets and make investment decisions on behalf of the Trust. Senior executives of the Investment Manager own 163,927 (2017 - 158,044) units, representing 9.8% (2017 - 9.4%) of the outstanding units as at December 31, 2018.

The capital of the Trust is represented by the net assets attributable to holders of redeemable units of the Trust, and comprises investments, cash and cash equivalents, and interest and dividends receivable, offset by liabilities of the Trust. As more fully outlined in the Declaration of Trust, the principal investment objective of the Trust is to achieve absolute annual returns, with an emphasis on capital gains, through investment in selected North American securities. The Trust will invest its property primarily in North American high yield and distressed debt securities, and in equity securities. The success of the Trust depends on the investment decisions of the Investment Manager and will be influenced by a number of risk factors, including liquidity risk, market risk, investment in options, and leverage from borrowed funds.

### 2. Basis of presentation:

The policies applied in these financial statements are based on International Financial Reporting Standards ("IFRS") in effect as at February 28, 2019, which is the date on which the financial statements were authorized for issue by the Investment Manager.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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### 3. Significant accounting policies:

The following is a summary of the significant accounting policies followed by the Trust:

#### (a) Financial instruments:

##### (i) Recognition, initial measurement and classification:

For fiscal years beginning January 1, 2018, IFRS 9, Financial Instruments ("IFRS 9") has replaced International Accounting Standard ("IAS") 39, Financial Instruments - Recognition and Measurement ("IAS 39"). IFRS 9 introduces new classification and measurement requirements for financial instruments, including impairment on financial assets and hedge accounting.

This new standard requires assets to be classified based on the Trust's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The standard includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit and loss ("FVTPL"). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

There were no changes to the measurement basis of the Trust's financial instruments as a result of adopting IFRS 9, and consequently, there was no impact to net assets.

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value, with transaction costs recognized in the statements of comprehensive income. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

---

## 3. Significant accounting policies (continued):

Original classification of financial assets and liabilities under IAS 39 were:

- Designated as at FVTPL: financial assets designated at fair value through profit or loss;
- Held-for-trading: financial assets held-for-trading;
- Loans and receivables: cash and cash equivalents and interest and dividends receivable; and
- Other financial liabilities: accounts payable and accrued liabilities, management and administrative fees payable and incentive fee payable.

Under IFRS 9, the Trust classifies financial assets and financial liabilities into the following categories:

- Financial assets at FVTPL: debt securities, equity investments and derivative financial instruments;
- Financial assets at amortized cost: all other financial assets are classified as at amortized cost;
- Financial liabilities at FVTPL: derivative financial instruments and securities sold short, if any; and
- Financial liabilities at amortized cost: all other financial liabilities are classified as at amortized cost.

The Trust does not classify any derivatives as hedges in a hedging relationship.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, using the transitional provisions allowing the Trust to not restate comparative periods.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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## 3. Significant accounting policies (continued):

### (ii) Fair value measurement:

Securities listed upon a recognized public stock exchange are valued at their closing bid prices as of the valuation dates. In a situation where, in the opinion of the Investment Manager, a market quotation for a security is inaccurate, unreliable, or not readily available, the fair value of the security is estimated using valuation techniques generally used in the industry. These techniques take into account market factors, valuation of similar securities and interest rates.

Short-term notes, treasury bills, bonds, asset-backed securities and other debt instruments traded in over the counter markets are valued at bid quotations provided by recognized investment dealers.

Securities not listed upon a recognized public stock exchange or not traded in over-the-counter markets are valued using valuation techniques, which take into account market factors, valuation of similar securities and interest rates.

The Trust recognizes financial instruments at fair value. Purchases and sales of financial assets are recognized at their trade dates. The Trust's obligation for net assets attributable to holders of redeemable units is presented on the financial statements at the redemption amount as determined according to the Declaration of Trust. All other financial assets and financial liabilities are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Trust's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value for transactions with unitholders.

The Trust may enter into foreign exchange contracts to hedge itself against foreign currency exchange rate risk for its foreign currency-denominated assets and liabilities in case of adverse foreign currency fluctuations against the U.S. dollar.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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## 3. Significant accounting policies (continued):

Forward currency transactions are classified as foreign exchange contracts in the Trust's financial statements and represent agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency transactions are the inability of counterparties to meet the terms of their respective contracts and movements in fair value and exchange rates. The Trust considers the credit risk of the counterparty for forward currency transactions in evaluating potential credit risk and selecting counterparties to forward currency transactions.

### (iii) Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Trust and its custodian have agreed that in the event of a default, the custodian reserves the right to sell any and all property the Trust holds with the custodian or any of its affiliates, to offset any indebtedness the Trust may have.

### (iv) Recognition/derecognition:

The Trust recognizes financial assets or financial liabilities on a trade date basis - the date it commits to purchase or sell the instruments. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statements of comprehensive income.

Other financial assets are derecognized when, and only when, the contractual rights to the cash flows from the asset expire; or when the Trust transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Trust derecognizes financial liabilities when, and only when, the Trust's obligations are discharged, cancelled or expired.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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## 3. Significant accounting policies (continued):

### (b) Income recognition:

Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Trust accounted for on an accrual basis. The Trust does not amortize premiums paid or discounts received on the purchase of fixed income securities, except for zero coupon bonds, which are amortized on a straight-line basis.

Realized gain on sale of financial assets and the change in unrealized loss on financial assets are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

### (c) Income taxes:

The Trust is taxable as a mutual fund trust under the Income Tax Act (Canada) on its income, including net realized capital gains in the taxation year, which is not paid or payable to its unitholders as at the end of the taxation year. It is the intention of the Trust to distribute all of its net income and sufficient net realized capital gains so that the Trust will not be subject to income taxes.

### (d) Foreign currency translation:

Transactions in currencies other than the Canadian dollar are translated at the rates of exchange prevailing at the transaction dates. Assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting dates. The functional currency of the Trust is the Canadian dollar. Resulting exchange differences are recognized in the statements of comprehensive income in net realized gain on financial assets and net change in unrealized loss on financial assets.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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## 3. Significant accounting policies (continued):

### (e) Transaction costs:

Transaction costs are expensed and are included in the statements of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

### (f) Use of estimates:

The preparation of financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Trust may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgements and estimates the Trust has made in preparing the financial statements. See note 10 for more information on fair value measurements. Actual results could differ from those estimates.

The assessment made by management on the date of initial application of IFRS 9 includes the determination of the business model within which a financial asset is held and the designation and revocation of previous designation of certain financial assets and financial liabilities as measured at FVTPL.

### (g) Cash and cash equivalents:

Cash and cash equivalents represent cash positions, as well as any trades that are in transit as at December 31, 2018 and 2017.

### (h) Net assets attributable to holders of redeemable units per unit:

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class outstanding at the end of the year.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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## 3. Significant accounting policies (continued):

- (i) Increase in net assets attributable to holders of redeemable units per weighted average units outstanding during the year:

Increase in net assets attributable to holders of redeemable units per weighted average unit outstanding during the year is based on the increase in net assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the year.

## 4. Related party transactions:

- (a) Specialty Foods Group LLC. Services Agreement:

The Trust previously held an investment in the securities of Specialty Foods Group LLC ("SFG"). Another fund managed by the Investment Manager also held an investment in SFG securities. A senior executive of the Investment Manager was also a member of the Board of Managers of SFG. During 2012, the Investment Manager entered into a services agreement with SFG ("SFG Services Agreement"), whereby the Investment Manager would provide strategic advice and analysis to SFG and in return earn a fee for these services. As per its internal policy, the Investment Manager reduced the management fees and administrative fees that it charged to the Trust in order to pass along the economic benefit of the fees earned by the Investment Manager from the SFG Services Agreement in an amount proportionate to the Trust's relative investment in SFG securities.

On October 1, 2018, SFG was sold to Indiana Packers Corporation. On the completion of the sale of SFG to Indiana Packers Corporation, the SFG Services Agreement was terminated. Accordingly, the Investment Manager received the last payment under the SFG Services Agreement in Q3 2018.

During the year ended December 31, 2018, the Investment Manager reduced management fees by \$54,111 (2017 - \$73,866) and reduced administrative fees by \$29,137 (2017 - \$39,774), which would have been subject to harmonized sales tax ("HST"). Therefore, the total impact of the fee reductions amounted to \$94,071, inclusive of HST (2017 - \$128,413).

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 4. Related party transactions (continued):

### (b) Management fees:

The management fees payable to the Investment Manager are based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Management fee
Up to and including \$250,000,000	0.65% plus HST
Between \$250,000,000 and \$500,000,000	0.60% plus HST
\$500,000,000 and more	0.55% plus HST

The net management fees for the year ended December 31, 2018 amounted to \$133,141 (2017 - \$94,469). The Investment Manager reduced the net management fees by \$54,111 (2017 - \$73,866), as described in further detail in (a). In the absence of the net management fee reduction, total net management fees would have amounted to approximately \$194,286, inclusive of HST (2017 - \$177,938). The net management fees payable as at December 31, 2018 amounted to \$34,829, including HST (2017 - \$24,909).

### (c) Administrative fees:

Subject to the supervision of the Trustee, the Investment Manager agrees to be responsible for and provide certain administrative services to the Trust. The Trust will pay the Investment Manager a fee based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Administrative fee
Up to and including \$250,000,000	0.35% plus HST
Between \$250,000,000 and \$500,000,000	0.30% plus HST
\$500,000,000 and more	0.25% plus HST

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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## 4. Related party transactions (continued):

The net administrative fees for the year ended December 31, 2018 amounted to \$71,691 (2017 - \$50,868). The Investment Manager reduced the net administrative fees by \$29,137 (2017 - \$39,774), as described in further detail in (a). In the absence of the net administrative fees reduction, total net administrative fees for 2018 would have amounted to approximately \$104,616, inclusive of HST (2017 - \$95,812). The net administrative fees payable as at December 31, 2018 amounted to \$18,754, including HST (2017 - \$13,413).

### (d) Incentive fee:

An incentive fee will be payable to the Investment Manager in any year, equal to 20% of the amount by which the net asset attributable to holders of redeemable units per unit at the end of the year, adjusted for contributions, distributions and redemptions during the year, exceeds the net assets attributable to holders of redeemable units per unit at the beginning of the year by more than 5%, plus any shortfall from the prior year. This fee is accrued monthly but determined annually and paid after the annual audit of the Trust's financial statements is completed. Incentive fee expense for the year ended December 31, 2018 amounted to \$884,580 (2017 - \$116,997), inclusive of HST. The incentive fee payable as at December 31, 2018 amounted to \$884,580, including HST (2017 - \$116,997).

### (e) Investor relations fees:

The Investment Manager is paid monthly investor relations fees of \$1,000 plus applicable sales tax for unitholder reporting and other services provided under a service agreement. The aggregate investor relations fees for the year ended December 31, 2018 amounted to \$13,600, inclusive of HST (2017 - \$13,560).

## 5. Unitholders' entitlements:

The unitholders' entitlements with respect to the net assets attributable to holders of redeemable units and distribution of income are generally as follows:

### (a) Entitlement in respect of net assets attributable to holders of redeemable units:

A pro rata share of the net assets attributable to holders of redeemable units of the Trust in the proportion that each unitholders' equity bears to the aggregate unitholders' equity.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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## 5. Unitholders' entitlements (continued):

### (b) Tax designations and elections:

The Trustee shall file all tax returns, on behalf of the Trust, required by law.

### (c) Redemption and recirculation of redeemable units:

By delivering an Annual Redemption Request to be received by the Trust's registrar and transfer agent on or before the twentieth business day prior to the applicable annual redemption date, being the valuation date following August 31 in any year ("Annual Redemption Date"), subject to compliance with applicable laws and the provisions, unitholders shall be entitled to require the Trust to redeem some or all of their units outstanding as net assets attributable to holders of redeemable units as of the Annual Redemption Date.

The Trust has the right to enter into a Recirculation Agreement prior to the Annual Redemption Date with one or more investment dealers designated by the Investment Manager (a "Recirculation Agent"). Through the recirculation process, interested purchasers have the opportunity to purchase units surrendered for redemption prior to the Annual Redemption Payment Date. During the year ended December 31, 2018, 56,961 units (2017 - 103,698) of the 56,961 redeemable units tendered for redemption (2017 - 103,698) were recirculated.

### (d) Distributions:

The Trust intends to make semi-annual distributions to unitholders of record as of the last valuation date of each of June and December in each calendar year, of such amount per unit as the Trustee, upon consultation with the Investment Manager, may determine. It is anticipated that the annual distribution will be at least equal to the net capital gains plus the net income of the Trust for that year, net of any tax losses brought forward from prior years.

During the year, the Trust made distributions of \$0.15 per unit on June 29, 2018 and \$0.15 per unit on December 28, 2018 for total distributions of \$501,861 (2017 - \$618,962).

As at December 31, 2018, the Trust had cumulative net capital losses of \$9,307,590 (2017 - \$13,896,501) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 5. Unitholders' entitlements (continued):

As at December 31, 2018, the Trust had non-capital losses of \$282,617 (2017 - \$320,011) for income tax purposes that may be carried forward and applied to reduce future years' taxable income.

## 6. Redeemable units of the Trust:

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets attributable to holders of redeemable units of the Trust. Each redeemable unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net assets attributable to holders of redeemable units per unit calculated on the redemption date.

	2018	2017
Redeemable units, beginning of year	1,672,870	1,672,870
Redeemable units tendered for redemption	(56,961)	(103,698)
Recirculation of redeemable units tendered for redemption	56,961	103,698
Redeemable units, end of year	1,672,870	1,672,870

## 7. Expenses:

The Investment Manager has the power to incur and make payment out of the Trust's property any charges or expenses which, in the opinion the Investment Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Declaration of Trust, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust will be responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

## 8. Indemnification of the Investment Manager:

The Trust has indemnified the Investment Manager (and each of its directors and officers) from and against all liabilities and expenses, reasonably incurred by the Investment Manager, other than liabilities and expenses incurred as a result of the Investment Manager's willful misconduct, bad faith or negligence. There were no claims or expenses against the Investment Manager requiring indemnification during the year ended December 31, 2018 (2017 - nil).

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 9. Financial instruments risk management:

Managing the risks of the investment portfolio is a critical element of the investment management process. The Investment Manager's overall risk management process seeks to minimize the potentially adverse effect of risk on its financial performance in a manner that is consistent with the Trust's investment mandate. To accomplish this goal, the Investment Manager utilizes a range of well-established tools and methods to manage the risk of the Trust.

With the ability of taking both long and short positions, the Trust may incur both interest expense and borrowing fees. While the use of borrowed funds can substantially improve the return on invested capital, its use may also increase the adverse impact to which the investment portfolio of the Trust may be subjected by increasing the Trust's exposure to capital risk and higher current expenses. The Trust did not use any borrowed funds as at December 31, 2018 and 2017.

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

### (a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust. Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The market value of debt instruments and derivatives includes consideration of the creditworthiness of the issuer and, accordingly, represents the majority of the credit risk exposure of the Trust. All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold takes place once the broker has received payment, and purchases are paid for once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

## RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

### 9. Financial instruments risk management (continued):

As at December 31, 2018, the market value of the Trust's debt portfolio was \$8,065,662 (28.0% of net assets attributable to holders of redeemable units) (2017 - \$5,092,517 (20.3% of net assets attributable to holders of redeemable units)), and comprised of non-rated bonds (3.5% and 8.3% of net assets attributable to holders of redeemable units as at December 31, 2018 and 2017, respectively) and defaulted bonds (24.5% and 12.0% of net assets attributable to holders of redeemable units for December 31, 2018 and 2017, respectively).

As at December 31, 2018, the market value of the Trust's foreign exchange contract was (\$161,685) (2017 - nil), entered into in order to hedge the Trust's exposure to the U.S. dollar. The Bank of Montreal was the counterparty which is rated AA by DBRS.

#### (b) Liquidity risk:

The Trust's cash and cash equivalent positions are a readily available source of liquidity. The Investment Manager utilizes the Trust's liquidity to make investments on behalf of the Trust and to meet the Trust's financial obligations as they become due. In addition, the Trust can raise additional liquidity through the sale of its investments.

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligations on time or at a reasonable price. The Trust's exposure to liquidity risk primarily relates to the annual redemption of units. As per the Declaration of Trust, the Trust has 35 business days' notice to make a redemption payment, during which time the Investment Manager can raise sufficient cash to satisfy the payment. In addition, the Trust has the right to resell units tendered for redemption.

One measure of the Trust's liquidity to meet any such obligation is the amount of cash, cash equivalent positions and listed securities held by the Trust, expressed as a percentage of net assets attributable to holders of redeemable units. As of December 31, 2018, the Trust held \$19,780,758 of cash and publicly listed securities (2017 - \$13,751,058) or 68.6% of net assets attributable to holders of redeemable units (2017 - 54.9%). While the Investment Manager believes that all of the Trust's securities can be sold within the applicable 35-business-day notice period, it may not be able to do so without adversely impacting transaction prices.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 9. Financial instruments risk management (continued):

### (c) Market risk:

#### (i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than the Canadian dollar, which represents the functional and presentational currency of the Trust. The Trust may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure. The Trust's exposure to another currency is as follows:

2018:

Currency	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units	
	Cash and cash equivalents	Financial assets	Foreign exchange contract	Total	Total
United States dollar	\$ 13,286	\$ 16,002,183	\$ (15,330,060)	\$ 785,419	\$ 7,654
% of net assets attributable to holders of redeemable units	0.1	55.8	(53.2)	2.7	0.0

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 9. Financial instruments risk management (continued):

2017:

Currency	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units	
	Cash and cash equivalents	Financial assets	Foreign exchange contract	Total	Total
United States dollar	\$ (3,035,736)	\$ 13,954,633	\$	\$ 10,919,897	\$ 109,191
% of net assets attributable to holders of redeemable units	(12.1)	55.7	-	43.6	0.5

As at December 31, 2018, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to holders of redeemable units would have decreased or increased, respectively, by approximately 0.0% (\$7,654) (2017 - 0.5% (\$109,191)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### (ii) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is no sensitivity to interest rate fluctuations on any cash balances.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 9. Financial instruments risk management (continued):

The Trust has exposure to high yield bonds (3.5% of net assets (2017 - 8.3%)) and defaulted bonds (24.5% of net assets (2017 - 12.0%)) with no exposure to government bonds. Its bond investments tend to be affected more by changes in overall economic growth and company-specific fundamentals rather than changes in interest rates. Changes in interest rates do not directly affect the market value of defaulted bonds as the underlying issuers have stopped making interest payments and thus do not offer a yield component to the holder. However, the Trust's high yield bonds do have a degree of interest rate risk, which is summarized in the table below.

As at December 31, 2018, the Trust's exposure to interest rate sensitive debt instruments by maturity and the impact on its net assets attributable to holders of redeemable units if the yield curve is shifted in parallel by an increase of 25 basis points ("bps"), holding all other variables constant sensitivity, would be as follows:

	2018	2017
<b>Market by maturity date*:</b>		
1 - 3 years	\$ 1,011,685	\$ 2,091,320
<b>Sensitivity to 25 bps yield change increase or decrease net assets</b>	<b>\$ 2,298</b>	<b>\$ 9,006</b>

\*Excludes cash, defaulted bonds and bonds to be converted to equity.

In practice, actual results may differ from the above sensitivity analysis and the difference could be material.

### (iii) Other price risk:

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from credit risk, interest rate risk or currency risk). All investments represent a risk of loss of capital. The Investment Manager of the Trust moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Trust's investment objectives and strategy. The Trust's overall market positions are monitored on a regular basis by the Investment Manager.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 9. Financial instruments risk management (continued):

As at December 31, 2018, 37.9% (2017 - 47.7%) of the Trust's net assets attributable to holders of redeemable units were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately 3.8% (\$1,090,622) (2017 - 4.8% (\$1,195,503)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### (iv) Concentration risk:

Concentration risk arises as a result of the concentration of exposures within the same category, whether geographical location, product type, industry sector or counterparty type. In particular, the key concentration risk for the Trust is its exposure to any single security or issuer. As at December 31, 2018, the Trust held an investment in one bond which represented approximately 22.4% (2017 - 11.9%) on a fair value basis and 6.9% (2017 - 7.5%) on a cost basis of net assets attributable to holders of redeemable units. As at December 31, 2017, the Trust held an investment in one issuer's preferred and common shares, which represented approximately 14.5% on a fair value basis and 0.0% on a cost basis of net assets attributable to holders of redeemable units.

## 10. Fair value measurements:

Financial instruments are measured at fair value using a three-tier hierarchy based on inputs used to value the Trust's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in public markets for identical assets or liabilities;
- Level 2 - dealer quoted prices in over the counter markets for identical assets or liabilities, or inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 10. Fair value measurements (continued):

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following tables present the Trust's financial instruments that have been measured at fair value, on a recurring basis:

2018	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Bonds	\$ 1,011,685	\$ 596,379	\$ 6,457,598	\$ 8,065,662
Equities	9,894,455	1,908,398	1,230,646	13,033,499
Warrants		84		84
	10,906,140	2,504,861	7,688,244	21,099,245
Foreign exchange contract	—	(161,685)	—	(161,685)
	\$ 10,906,140	\$ 2,343,176	\$ 7,688,244	\$ 20,937,560
<hr/>				
2017	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Bonds	\$ 636,720	\$ —	\$ 4,455,797	\$ 5,092,517
Equities	11,317,181	1,795,054	5,023,560	18,135,795
Warrants	—	176,831	—	176,831
	\$ 11,953,901	\$ 1,971,885	\$ 9,479,357	\$ 23,405,143

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 10. Fair value measurements (continued):

The tables below show a reconciliation of the opening and closing balance of financial instruments recorded in Level 3:

	Beginning of year, January 1, 2018	Transfer from Level 1	Transfer from Level 2	Unrealized fair value gain (loss)	Sales, purchases, realized gains and other movements	End of year, December 31, 2018
Specialty Food Group LLC	\$ 18,929	\$ —	\$ —	\$ (18,731)	\$ (198)	\$ —
Specialty Food Group LLC, Class 1 preferred shares	1,175,032	—	—	83,077	(1,258,104)	—
Specialty Food Group LLC, Class 2 preferred shares	2,435,481	—	—	1,960,029	(4,399,510)	—
Specialty Food Group LLC, Post closing payment rights	—	—	—	—	196,137	196,137
GXI Acquisition Corp. equity	1,126,500	—	—	(458,122)	—	668,378
Old PSG Wind Down - equity	263,018	—	—	102,513	—	365,531
GuestLogix - debenture	19,558	—	—	19,650	(39,208)	—
Dealnet Capital Corp. debenture	1,454,600	—	—	295,400	(1,750,000)	—
Crystallex International Corp.	2,981,639	—	—	3,375,371	100,588	6,457,698
<b>Total</b>	<b>\$ 9,478,357</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5,359,187</b>	<b>\$ (7,150,300)</b>	<b>\$ 7,688,244</b>

The Trust did not have any transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy for the year ended December 31, 2018.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 10. Fair value measurements (continued):

	Beginning of year, January 1, 2017	Transfer from Level 1	Transfer from Level 2	Unrealized fair value gain (loss)	Sales, purchases, realized gains and other movements	End of year, December 31, 2017
SHG - equity	\$ 5,408,026	\$ -	\$ -	\$ (2,848,484)	\$ (2,557,582)	\$ -
Specialty Food Group LLC	-	-	-	18,929	-	18,929
Specialty Food Group LLC, Class 1 preferred shares	-	-	-	1,175,032	-	1,175,032
Specialty Food Group LLC, Class 2 preferred shares	-	-	-	2,439,481	-	2,439,481
GXI Acquisition Corp. equity	1,203,543	-	-	(77,043)	-	1,126,500
Old PSG Wind Down - equity	-	263,618	-	-	-	263,618
GuestLogix - debenture	34,179	-	-	13,292	(27,913)	19,558
Dealnet Capital Corp. debenture	-	-	-	-	1,454,600	1,454,600
Crystallex International Corp	-	-	3,430,599	(448,960)	-	2,981,639
Total	\$ 6,643,748	\$ 263,618	\$ 3,430,599	\$ 272,267	\$ (1,130,875)	\$ 9,479,357

During the year ended December 31, 2017, there was one transfer from Level 1 to Level 3 in the amount of \$263,618 as Old PSG Wind-Down Ltd. common shares were delisted. There was one transfer from Level 2 to Level 3 in the amount of \$3,430,599 as Crystallex International Corp. debentures were priced using the average of two bid quotes received for the security at December 31, 2017. Also, due to changes in market conditions for one bond investment, a quoted price in an active market became available and as such this investment was transferred from Level 2 to Level 1. The Trust did not have any other transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy for the year ended December 31, 2017.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 10. Fair value measurements (continued):

The tables below set out information about significant unobservable inputs used as at December 31, 2018 and 2017 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value, December 31, 2018	Valuation technique	Unobservable input	Input value	Sensitivity to changes in significant unobservable inputs
Unlisted private equity	\$ 196,137	Expected future distributions	Post closing adjustment escrow claim/reserve amount	\$1,184,430	The estimated fair value would increase (decrease) by \$15,221 or 8% for each 25% decrease (increase) in the claim/reserve amount. Net assets attributable to holders of redeemable units would increase (decrease) by 0.1%.
Unlisted private equity	668,378	Present value of expected future cash flows	Discount rate	30%	The estimated fair value would increase (decrease) by \$68,317 (\$58,679) or 10% (9%) for each 500 bps decrease (increase) in the discount rate. Net assets attributable to holders of redeemable units would increase (decrease) by 0.2%.
Unlisted private equity	368,131	Expected future distributions	Projected Parent Equity Interest distributions	\$0.52 per share	The estimated fair value would increase (decrease) by \$68,328 or 18% for each \$0.02 increase (decrease) in projected distributions per share. Net assets attributable to holders of redeemable units would increase (decrease) by 0.2%.
Defaulted bonds	6,457,508	Average of broker quotes and last price	Broker quote	\$108 - \$155 per \$100 face value	The estimated fair value would increase (decrease) by \$1,415,973 (\$1,054,043) or 22% (16%) using the high (low) end of the range. Net assets attributable to holders of redeemable units would increase (decrease) by 4.6% (3.7%).
	<u>\$ 7,688,244</u>				

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

## 10. Fair value measurements (continued):

Description	Fair value, December 31, 2017	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	\$ 3,033,442	Present value of expected future Distributions received	EBITDA multiple	7.00x EBITDA No alternative assumption to disclose	Estimated fair value would increase (decrease) by \$268.87B or 7.1% for each 0.5x increase (decrease) in the EBITDA multiple. Net assets attributable to holders of redeemable units would increase (decrease) by 1.1%.
			Discount rate	13%	Estimated fair value would increase (decrease) by 533.33B or 0.9% for each 100 bps decrease (increase) in the discount rate. Net assets attributable to holders of redeemable units would increase (decrease) by 0.1%.
Unlisted private equity investments	1,360,110	Not applicable	Transaction price	Not applicable	Not applicable
Unlisted private bonds	1,454,600	Not applicable	Transaction price	Not applicable	Not applicable
Defaulted bonds	2,981,639	Average of Broker quotes received	Broker quotes	\$45 - \$65 per \$100 face value	Estimated fair value would increase (decrease) by \$377,427 or 30.8% Net assets attributable to holders of redeemable units would increase (decrease) by 3.7%.
Defaulted bonds	19,558	Not applicable	Monitor's estimate of the distribution	Not applicable	Not applicable
	<u>\$ 9,479,357</u>				

The Investment Manager is responsible for performing the fair value measurements included in the financial statements of the Trust, including Level 3 measurements. The Investment Manager obtains pricing for Level 3 financial instruments from third-party pricing sources, which is reviewed and approved by the Investment Manager.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2018 and 2017

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## 10. Fair value measurements (continued):

Financial instruments not measured at fair value:

- (a) The cash and cash equivalents, interest and dividends receivable, accounts payable and accrued liabilities, management and administrative fees payable and incentive fee payable are short-term financial assets and financial liabilities are initially recorded at amortized cost which carrying amounts approximate fair values.

Cash and cash equivalents and interest and dividends receivable include the contractual amounts for settlement of trades and other obligations due to the Trust. Accruals represent the contractual amounts and obligations due by the Trust for settlement of trades and expenses.

- (b) The Trust's redeemable units are considered a residual interest in the assets of the Trust after deducting all of its liabilities. The redemption value of redeemable units is equal to net assets attributable to holders of redeemable units as calculated in accordance with the Declaration of Trust. The units are redeemable annually, at the holders' option, for cash equal to the proportionate share of the Trust's net asset value attributable to the share class, as described in the Declaration of Trust and in note 5(c).

## 11. Capital disclosures:

The Investment Manager has policies and procedures in place to manage the capital of the Trust in accordance with the Trust's investment objectives, strategies and restrictions, as detailed in the Declaration of Trust. Information about the capital is described in the statements of changes in net assets attributable to holders of redeemable units and the Trust does not have externally imposed capital requirements.

**EXHIBIT 20 TO THE  
CROSS-  
EXAMINATION  
OF S. REID**

Financial Statements of

## **RAVENSOURCE FUND**

Years ended December 31, 2019 and 2018



# RAVENSOURCE FUND

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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Ravensource Fund

### ***Opinion***

We have audited the financial statements of Ravensource Fund (the Entity), which comprise:

- the statements of financial position as at December 31, 2019 and December 31, 2018
- the statements of comprehensive income for the years then ended
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditors' Responsibilities for the Audit of the Financial Statements"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management Report of Fund Performance to be filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.



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Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is James Loewen.

Toronto, Canada

February 28, 2020

# RAVENSOURCE FUND

## Statements of Financial Position

December 31, 2019 and 2018

	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 5,992,900	\$ 8,854,534
Financial assets at fair value through profit or loss (cost - \$19,683,646; 2018 - \$17,912,250) (note 10)	23,658,174	21,099,245
Foreign exchange contract (note 10)	157,781	—
Interest and dividends receivable	58,299	51,812
	<u>29,867,154</u>	<u>30,005,591</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	98,961	97,585
Foreign exchange contract (note 10)	—	161,685
Management and administrative fees payable (note 4(b) and (c))	55,426	53,583
Incentive fee payable (note 4(d))	—	884,580
	<u>154,387</u>	<u>1,197,433</u>
Net assets attributable to holders of redeemable units	<u>\$ 29,712,767</u>	<u>\$ 28,808,158</u>
Number of redeemable units outstanding (note 6)	1,672,870	1,672,870
Net assets attributable to holders of redeemable units per unit (note 5)	<u>\$ 17.76</u>	<u>\$ 17.22</u>

See accompanying notes to financial statements.

Approved on behalf of the Trust:



Stornoway Portfolio Management Inc.,  
as Investment Manager

# RAVENSOURCE FUND

## Statements of Comprehensive Income

Years ended December 31, 2019 and 2018

	2019	2018
Income:		
Dividends and income trust distributions	\$ 488,484	\$ 288,140
Interest income for distribution purposes	290,686	276,043
	779,170	564,183
Net change in fair value on financial assets at fair value through profit or loss and foreign exchange contracts:		
Net unrealized gain on financial assets	797,238	896,112
Net unrealized gain (loss) on foreign exchange contracts	319,466	(161,685)
Net realized gain (loss) on financial assets, including foreign exchange adjustments	(154,419)	4,422,508
Net realized gain on foreign exchange contracts	314,438	—
Net change in fair value on financial assets and foreign exchange contracts	1,276,723	5,156,935
	2,055,893	5,721,118
Expenses (income):		
Management fees (note 4(b))	217,094	194,286
Administrative fees (note 4(c))	116,897	104,616
Impact of management and administrative fee reductions (note 4(a))	—	(94,071)
Incentive fee (note 4(d))	—	884,580
Legal fees	112,110	100,417
Independent review committee fees	33,000	32,260
Accounting fees	32,002	30,510
Audit fees	31,137	26,577
Transaction costs	30,665	29,380
Listing fees	28,641	19,870
Trust administration and transfer agency fees	21,883	15,309
Investor relations fees (note 4(e))	13,520	13,600
Other	7,799	10,582
Interest	4,675	90,752
	649,423	1,458,668
Increase in net assets attributable to holders of redeemable units	\$ 1,406,470	\$ 4,262,450
Average number of units outstanding	1,672,870	1,672,870
Increase in net assets attributable to holders of redeemable units per weighted average unit outstanding	\$ 0.84	\$ 2.55

See accompanying notes to financial statements.

## RAVENSOURCE FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

Years ended December 31, 2019 and 2018

	2019	2018
Net assets attributable to holders of redeemable units, beginning of year	\$ 28,808,158	\$ 25,047,569
Increase in net assets attributable to holders of redeemable units	1,406,470	4,262,450
Capital transactions:		
Units tendered for redemption (note 5(c))	(1,081,068)	(932,867)
Recirculation of units tendered for redemption (note 5(c))	1,081,068	932,867
Distributions paid to holders of redeemable units (note 5(d))	(501,861)	(501,861)
	(501,861)	(501,861)
Net assets attributable to holders of redeemable units, end of year	\$ 29,712,767	\$ 28,808,158

See accompanying notes to financial statements.



# RAVENSOURCE FUND

## Statements of Cash Flows

Years ended December 31, 2019 and 2018

	2019	2018
Cash and cash equivalents, beginning of year	\$ 8,854,534	\$ 1,796,026
Increase (decrease) in cash and cash equivalents during the year:		
Cash flows from (used in) operating activities:		
Increase in net assets attributable to holders of redeemable units	1,406,470	4,262,450
Adjustments for non-cash income items:		
Net unrealized gain on financial assets	(797,238)	(896,112)
Net unrealized loss (gain) on foreign exchange contracts	(319,466)	161,685
Net realized loss (gain) on financial assets, including foreign exchange translations on cash	154,419	(4,422,508)
Change in non-cash working capital balances:		
Decrease (increase) in interest and dividends receivable	(6,487)	32,693
Increase in accounts payable and accrued liabilities	1,376	14,799
Increase (decrease) in incentive fees payable	(884,580)	767,583
Increase in management and administrative fees payable	1,843	15,261
Proceeds from sale of investments	4,963,007	11,470,886
Purchase of investments	(6,849,824)	(3,699,638)
Net cash flows from (used in) operating activities	(2,330,480)	7,707,099
Cash flows from (used in) financing activities:		
Distributions paid to holders of redeemable units	(501,861)	(501,861)
Units tendered for redemption	(1,081,068)	(932,867)
Recirculation of units tendered for redemption	1,081,068	932,867
Net cash flows used in financing activities	(501,861)	(501,861)
Foreign exchange loss on cash	(29,293)	(146,730)
Increase (decrease) in cash and cash equivalents	(2,861,634)	7,058,508
Cash and cash equivalents, end of year	\$ 5,992,900	\$ 8,854,534
Supplemental cash flow information:		
Interest paid	\$ 4,675	\$ 90,752
Interest received	270,756	335,695
Dividends received	498,362	255,731

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Schedule of Investments

December 31, 2019

Shares/units/ par value	Investments owned	Average cost	Fair value	Fair value as % of net asset value
Canadian equities:				
1,000	Crystallex International Corp.	\$ 90	\$ —	—
52,833	Delphi Energy Corp.	87,174	33,813	0.11
105,667	Delphi Energy Corp.			
	Equity Subscription Receipts	174,351	174,351	0.59
184,818	Dundee Corp. Series 3 Preferred Shares	2,218,546	2,787,056	9.38
27	Dundee Corp. Series 2 Preferred Shares	394	399	—
168,817	Flow Capital Corp.	20,258	24,478	0.08
20,600	GVIC Communications Corp. Class B	16,686	2,678	0.01
194,000	Hudson's Bay Co.	1,848,219	1,916,720	6.45
		4,365,718	4,939,495	16.62
U.S. equities:				
296,667	Firm Capital American Realty Partners Corp.	2,546,063	2,565,480	8.63
484,500	Genworth Financial Inc.	2,574,545	2,768,036	9.32
300,900	GXI Acquisition Corp. Class A	399,287	302,873	1.02
745,286	GXI Acquisition Corp. Class B	988,915	750,174	2.52
515,766	Old PSG Wind-Down Ltd.	700,858	348,242	1.17
263,157	Quad/Graphics Inc.	1,997,535	1,595,721	5.37
1,323,256	SeaCo Ltd.	—	—	—
2,026	Spanish Broadcasting System Inc.			
	Preferred Shares 10.75%	1,923,771	2,104,528	7.08
90,663	Specialty Foods Group LLC.			
	Class 2 Preferred Shares	—	90,764	0.31
		11,130,974	10,525,818	35.42
Fixed income:				
244,541	Colabor Group Inc.			
	6% due Oct 13, 2021	194,625	207,860	0.70
3,959,000	Crystallex International Corp.			
	9.375% due Dec 30, 2011*	2,453,240	6,425,704	21.63
757,633	Delphi Energy Corp.			
	10% due Apr 15, 2023	519,656	469,732	1.58
697,367	Delphi Energy Corp.			
	Note Subscription Receipts	523,025	523,025	1.76
432,000	Spanish Broadcasting System Inc.			
	12.5% due Apr 15, 2017*	546,297	566,540	1.91
		4,236,843	8,192,861	27.58
Net investments owned		19,733,535	23,658,174	79.62

# RAVENSOURCE FUND

Schedule of Investments (continued)

December 31, 2019

Shares/units/ par value	Investments owned	Average cost	Fair value	Fair value as % of net asset value
Foreign exchange contract:				
Sell \$11,250,000 USD, buy \$14,762,531 CAD				
@ 1.312225, March 21, 2020				
		—	157,781	0.53
Brokerage commissions		(49,889)		
Total portfolio of investments		<u>\$ 19 683 646</u>	23,815,955	80.15
Other net assets			5,896,812	19.85
Net assets			<u>\$ 29,712,767</u>	100.00

\* Defaulted

See accompanying notes to financial statements.

# RAVENSOURCE FUND

Notes to Financial Statements

Years ended December 31, 2019 and 2018

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## 1. Trust organization and nature of operations:

The Ravensource Fund (the "Trust") is a closed-end investment trust which was created under the laws of the Province of Ontario pursuant to a Declaration of Trust, dated April 28, 1997, as amended January 15, 2001 and as further amended and restated as at August 22, 2003, July 1, 2008, July 3, 2015 and August 7, 2019. The Trust's units are listed on the Toronto Stock Exchange (RAV.UN).

Computershare Trust Company of Canada acts as trustee for the Trust (the "Trustee"). At a special meeting of the Trust's unitholders, Stornoway Portfolio Management Inc., an Ontario corporation, was appointed as the investment manager (the "Investment Manager") of the Trust, effective July 1, 2008. The Trust's principal place of business is located at 30 St. Clair Avenue West, Suite 901, Toronto, Ontario M4V 3A1.

The Investment Manager provides portfolio management and administrative services to the Trust, subject to the overall supervision of the Trustee. The Investment Manager is authorized to invest the Trust's assets and make investment decisions on behalf of the Trust. Senior executives of the Investment Manager own 163,487 (2018 - 163,927) units, representing 9.8% (2018 - 9.8%) of the outstanding units as at December 31, 2019.

The capital of the Trust is represented by the net assets attributable to holders of redeemable units of the Trust, and comprises investments, cash and cash equivalents, and interest and dividends receivable, offset by liabilities of the Trust. As more fully outlined in the Declaration of Trust, the principal investment objective of the Trust is to achieve absolute annual returns, with an emphasis on capital gains, through investment in selected North American securities. To achieve its objectives the Trust invests across three core strategies: Distressed Securities; Alternative Credit; and Special Situations Equities. The success of the Trust depends on the investment decisions of the Investment Manager and will be influenced by a number of risk factors, including liquidity risk, market risk, investment in options, and leverage from borrowed funds.

## 2. Basis of presentation:

### (a) Basis of presentation:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). There were authorized for issue by the Manager of February 28, 2020.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 2. Basis of presentation (continued):

### (b) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Trust's functional currency.

## 3. Significant accounting policies:

The following is a summary of the significant accounting policies followed by the Trust:

### (a) Financial instruments:

#### (i) Recognition, initial measurement and classification:

IFRS 9, Financial Instruments ("IFRS 9") requires assets to be classified based on the Trust's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The standard includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit and loss ("FVTPL"). IFRS 9 largely retains the existing requirements in International Accounting Standard 39, Financial Instruments - Recognition and Measurement for the classification of financial liabilities.

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value, with transaction costs recognized in the statements of comprehensive income. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

Under IFRS 9, the Trust classifies financial assets and financial liabilities into the following categories:

- Financial assets at FVTPL: debt securities, equity investments and derivative financial instruments;
- Financial assets at amortized cost: all other financial assets are classified as at amortized cost;

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 3. Significant accounting policies (continued):

- Financial liabilities at FVTPL: derivative financial instruments and securities sold short, if any; and
- Financial liabilities at amortized cost: all other financial liabilities are classified as at amortized cost.

The Trust does not classify any derivatives as hedges in a hedging relationship.

### (ii) Fair value measurement:

Securities listed upon a recognized public stock exchange are valued at the most recent price which the security transacted as of the valuation dates. In the event a given security is not transacted on a valuation date, the Manager values the security using its closing bid price. In a situation where, in the opinion of the Investment Manager, a market quotation for a security is inaccurate, unreliable, or not readily available, the fair value of the security is estimated using valuation techniques generally used in the industry. These techniques take into account market factors, valuation of similar securities and interest rates.

Short-term notes, treasury bills, bonds, asset-backed securities and other debt instruments traded in over-the-counter markets are valued at bid quotations provided by recognized investment dealers.

Securities not listed upon a recognized public stock exchange or not traded in over-the-counter markets are valued using valuation techniques, which take into account market factors, valuation of similar securities and interest rates.

The Trust recognizes financial instruments at fair value. Purchases and sales of financial assets are recognized at their trade dates. The Trust's obligation for net assets attributable to holders of redeemable units is presented on the financial statements at the redemption amount as determined according to the Declaration of Trust. All other financial assets and financial liabilities are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Trust's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value for transactions with unitholders.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 3. Significant accounting policies (continued):

The Trust may enter into foreign exchange contracts to hedge itself against foreign currency exchange rate risk for its foreign currency-denominated assets and liabilities in case of adverse foreign currency fluctuations against the U.S. dollar.

Forward currency transactions are classified as foreign exchange contracts in the Trust's financial statements and represent agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency transactions are the inability of counterparties to meet the terms of their respective contracts and movements in fair value and exchange rates. The Trust considers the credit risk of the counterparty for forward currency transactions in evaluating potential credit risk and selecting counterparties to forward currency transactions.

### (iii) Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Trust and its custodian have agreed that in the event of a default, the custodian reserves the right to sell any and all property the Trust holds with the custodian or any of its affiliates, to offset any indebtedness the Trust may have.

### (iv) Recognition/derecognition:

The Trust recognizes financial assets or financial liabilities on a trade date basis - the date it commits to purchase or sell the instruments. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statements of comprehensive income.

Other financial assets are derecognized when, and only when, the contractual rights to the cash flows from the asset expire; or when the Trust transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Trust derecognizes financial liabilities when, and only when, the Trust's obligations are discharged, cancelled or expired.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

---

## 3. Significant accounting policies (continued):

### (b) Income recognition:

Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

Interest income for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Trust accounted for on an accrual basis. The Trust does not amortize premiums paid or discounts received on the purchase of fixed income securities, except for zero coupon bonds, which are amortized on a straight-line basis.

Net realized gain (loss) on the sale of financial assets and net unrealized gain on financial assets are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero-coupon bonds.

### (c) Income taxes:

The Trust is taxable as a mutual fund trust under the Income Tax Act (Canada) on its income, including net realized capital gains in the taxation year, which is not paid or payable to its unitholders as at the end of the taxation year. It is the intention of the Trust to distribute all of its net income and sufficient net realized capital gains so that the Trust will not be subject to income taxes.

### (d) Foreign currency translation:

Transactions in currencies other than the Canadian dollar are translated at the rates of exchange prevailing at the transaction dates. Assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting dates. The functional currency of the Trust is the Canadian dollar. Resulting exchange differences are recognized in the statements of comprehensive income in net realized gain (loss) on financial assets and net unrealized gain on financial assets.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 3. Significant accounting policies (continued):

### (e) Transaction costs:

Transaction costs are expensed and are included in the statements of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

### (f) Use of estimates:

The preparation of financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Trust may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgements and estimates the Trust has made in preparing the financial statements. See note 10 for more information on fair value measurements. Actual results could differ from those estimates.

The assessment made by management on the date of initial application of IFRS 9 includes the determination of the business model within which a financial asset is held and the designation and revocation of previous designation of certain financial assets and financial liabilities as measured at FVTPL.

### (g) Cash and cash equivalents:

Cash and cash equivalents represent cash positions, as well as any trades that are in transit as at December 31, 2019 and 2018.

### (h) Net assets attributable to holders of redeemable units per unit:

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class outstanding at the end of the year.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 3. Significant accounting policies (continued):

- (i) Increase in net assets attributable to holders of redeemable units per weighted average units outstanding during the year:

Increase in net assets attributable to holders of redeemable units per weighted average unit outstanding during the year is based on the increase in net assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the year.

## 4. Related party transactions:

- (a) Specialty Foods Group LLC. Services Agreement:

The Trust previously held an investment in the securities of Specialty Foods Group LLC ("SFG"). Another fund managed by the Investment Manager also held an investment in SFG securities. A senior executive of the Investment Manager was also a member of the Board of Managers of SFG. During 2012, the Investment Manager entered into a services agreement with SFG ("SFG Services Agreement"), whereby the Investment Manager would provide strategic advice and analysis to SFG and in return earn a fee for these services. As per its internal policy, the Investment Manager reduced the management fees and administrative fees that it charged to the Trust in order to pass along the economic benefit of the fees earned by the Investment Manager from the SFG Services Agreement in an amount proportionate to the Trust's relative investment in SFG securities.

On October 1, 2018, SFG was sold to Indiana Packers Corporation. On the completion of the sale of SFG to Indiana Packers Corporation, the SFG Services Agreement was terminated. Accordingly, the Investment Manager received the last payment under the SFG Services Agreement in Q3 2018.

As the SFG Services Agreement is terminated, during the year ended December 31, 2019, the Investment Manager made no reductions to management fees (2018 - \$54,111) or administrative fees (2018 - \$29,137) and does not expect any management and administrative fee reductions going forward. Any reductions would have been subject to harmonized sales tax ("HST"). Therefore, the total impact of the fee reductions during the year amounted to nil, inclusive of HST (2018 - \$94,071), as noted in the financial statements.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

## 4. Related party transactions (continued):

### (b) Management fees:

The management fees payable to the Investment Manager are based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Management fee
Up to and including \$250,000,000	0.65% plus HST
Between \$250,000,000 and \$500,000,000	0.60% plus HST
\$500,000,000 and more	0.55% plus HST

The net management fees for the year ended December 31, 2019 amounted to \$217,094 (2018 - \$133,141). During the year ended December 31, 2019, the Investment Manager reduced the net management fees by nil (2018 - \$54,111), as described in further detail in (a). In the absence of the management fee reduction, total net management fees would have amounted to approximately \$217,094 (2018 - \$194,286), inclusive of HST. The net management fees payable as at December 31, 2019 amounted to \$36,027, including HST (2018 - \$34,829).

### (c) Administrative fees:

Subject to the supervision of the Trustee, the Investment Manager agrees to be responsible for and provide certain administrative services to the Trust. The Trust will pay the Investment Manager a fee based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Administrative fee
Up to and including \$250,000,000	0.35% plus HST
Between \$250,000,000 and \$500,000,000	0.30% plus HST
\$500,000,000 and more	0.25% plus HST

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 4. Related party transactions (continued):

The net administrative fees for the year ended December 31, 2019 amounted to \$116,897 (2018 - \$71,691). During the year ended December 31, 2019, the Investment Manager reduced the net administrative fees by nil (2018 - \$29,137), as described in further detail in (a). In the absence of the net administrative fees reduction, total net administrative fees would have amounted to approximately \$116,897 (2018 - \$104,616), inclusive of HST. The net administrative fees payable as at December 31, 2019 amounted to \$19,399, including HST (2018 - \$18,754).

### (d) Incentive fee:

An incentive fee will be payable to the Investment Manager in any year, equal to 20% of the amount by which the net assets attributable to holders of redeemable units per unit at the end of the year, adjusted for contributions, distributions and redemptions during the year, exceeds the net assets attributable to holders of redeemable units per unit at the beginning of the year by more than 5%, plus any shortfall from the prior year. This fee is accrued monthly but determined annually and paid after the annual audit of the Trust's financial statements is completed. Incentive fee expense for the year ended December 31, 2019 amounted to nil, inclusive of HST (2018 - \$884,580). The incentive fee payable as at December 31, 2019 amounted to nil, including HST (2018 - \$884,580).

### (e) Investor relations fees:

The Investment Manager is paid monthly investor relations fees of \$1,000 plus applicable sales tax for unitholder reporting and other services provided under a service agreement. The aggregate investor relations fees for the year ended December 31, 2019 amounted to \$13,520, inclusive of HST (2018 - \$13,600). The investor relations fee payable as at December 31, 2019 amounted to \$2,260, inclusive of HST (2018 - \$2,300).

## 5. Unitholders' entitlements:

The unitholders' entitlements with respect to the net assets attributable to holders of redeemable units and distribution of income are generally as follows:

### (a) Entitlement in respect of net assets attributable to holders of redeemable units:

A pro rata share of the net assets attributable to holders of redeemable units of the Trust in the proportion that each unitholders' equity bears to the aggregate unitholders' equity.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 5. Unitholders' entitlements (continued):

### (b) Tax designations and elections:

The Trustee shall file all tax returns, on behalf of the Trust, required by law.

### (c) Redemption and recirculation of redeemable units:

By delivering an Annual Redemption Request to be received by the Trust's registrar and transfer agent on or before the twentieth business day prior to the applicable annual redemption date, being the valuation date following August 31 in any year ("Annual Redemption Date"), subject to compliance with applicable laws and the provisions, unitholders shall be entitled to require the Trust to redeem some or all of their units outstanding as net assets attributable to holders of redeemable units as of the Annual Redemption Date.

The Trust has the right to enter into a Recirculation Agreement prior to the Annual Redemption Date with one or more investment dealers designated by the Investment Manager. Through the recirculation process, interested purchasers have the opportunity to purchase units surrendered for redemption prior to the Annual Redemption Payment Date. During the year ended December 31, 2019, 60,542 units (2018 - 56,961) of the 60,542 redeemable units tendered for redemption (2018 - 56,961) were recirculated.

### (d) Distributions:

The Trust intends to make semi-annual distributions to unitholders of record as of the last valuation date of each of June and December in each calendar year, of such amount per unit as the Trustee, upon consultation with the Investment Manager, may determine. It is anticipated that the annual distribution will be at least equal to the net capital gains plus the net income of the Trust for that year, net of any tax losses brought forward from prior years.

During the year, the Trust made distributions of \$0.15 per unit on June 28, 2019 and \$0.15 per unit on December 30, 2019 for total distributions of \$501,861 (2018 - \$501,861).

As at December 31, 2019, the Trust had cumulative net capital losses of \$10,771,758 (2018 - \$9,307,590) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

## 5. Unitholders' entitlements (continued):

As at December 31, 2019, the Trust had non-capital losses of \$816,767 (2018 - \$282,617) for income tax purposes that may be carried forward and applied to reduce future years' taxable income.

## 6. Redeemable units of the Trust:

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets attributable to holders of redeemable units of the Trust. Each redeemable unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net assets attributable to holders of redeemable units per unit calculated on the redemption date.

	2019	2018
Redeemable units, beginning of year	1,672,870	1,672,870
Redeemable units tendered for redemption	(60,542)	(56,961)
Recirculation of redeemable units tendered for redemption	60,542	56,961
Redeemable units, end of year	1,672,870	1,672,870

## 7. Expenses:

The Investment Manager has the power to incur and make payment out of the Trust's property any charges or expenses which, in the opinion the Investment Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Declaration of Trust, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust will be responsible for any income or excise taxes and brokerage commissions on portfolio transactions. The Investment Manager does not use soft dollar arrangements for the payment of third party products or other services.

## 8. Indemnification of the Investment Manager:

The Trust has indemnified the Investment Manager (and each of its directors and officers) from and against all liabilities and expenses, reasonably incurred by the Investment Manager, other than liabilities and expenses incurred as a result of the Investment Manager's willful misconduct, bad faith or negligence. There were no claims or expenses against the Investment Manager requiring indemnification during the year ended December 31, 2019 (2018 - nil).

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 9. Financial instruments risk management:

Managing the risks of the investment portfolio is a critical element of the investment management process. The Investment Manager's overall risk management process seeks to minimize the potentially adverse effect of risk on its financial performance in a manner that is consistent with the Trust's investment mandate. To accomplish this goal, the Investment Manager utilizes a range of well-established tools and methods to manage the risk of the Trust.

With the ability of taking both long and short positions, the Trust may incur both interest expense and borrowing fees. While the use of borrowed funds can substantially improve the return on invested capital, its use may also increase the adverse impact to which the investment portfolio of the Trust may be subjected by increasing the Trust's exposure to capital risk and higher current expenses. The Trust did not use any borrowed funds as at December 31, 2019 and 2018.

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

### (a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust. Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The market value of debt instruments and derivatives includes consideration of the creditworthiness of the issuer and, accordingly, represents the majority of the credit risk exposure of the Trust. All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold takes place once the broker has received payment, and purchases are paid for once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 9. Financial instruments risk management (continued):

As at December 31, 2019, the market value of the Trust's debt portfolio was \$8,192,862 (27.6% of net assets attributable to holders of redeemable units) (2018 - \$8,065,662 (28.0% of net assets attributable to holders of redeemable units)), and comprised of note subscription receipts (1.8% and 0.0% of net assets attributable to holders of redeemable units as at December 31, 2019 and 2018), non-defaulted bonds (2.3% and 3.5% of net assets attributable to holders of redeemable units as at December 31, 2019 and 2018, respectively) and defaulted bonds (23.5% and 24.5% of net assets attributable to holders of redeemable units for December 31, 2019 and 2018, respectively).

As at December 31, 2019, the market value of the Trust's foreign exchange contracts was \$157,781 (2018 - (\$161,685)), entered into in order to hedge the Trust's exposure to the U.S. dollar. The Bank of Montreal was the counterparty which is rated AA (low) by DBRS.

### (b) Liquidity risk:

The Trust's cash and cash equivalent positions are a readily available source of liquidity. The Investment Manager utilizes the Trust's liquidity to make investments on behalf of the Trust and to meet the Trust's financial obligations as they become due. In addition, the Trust can raise additional liquidity through the sale of its investments.

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligations on time or at a reasonable price. The Trust's exposure to liquidity risk primarily relates to the annual redemption right of unitholders. As per the Declaration of Trust, the Trust has 35 business days' notice to make a redemption payment, during which time the Investment Manager can raise sufficient cash to satisfy the payment. In addition, the Trust has the right to resell units tendered for redemption.

One measure of the Trust's liquidity to meet any such obligation is the amount of cash, cash equivalent positions and listed securities held by the Trust, expressed as a percentage of net assets attributable to holders of redeemable units. As of December 31, 2019, the Trust held \$5,992,900 of cash (2018 - \$8,854,534) and \$12,371,973 of publicly listed securities (2018 - \$10,906,224) that aggregates to 61.8% of net assets attributable to holders of redeemable units (2018 - 68.6%). The Investment Manager believes that all of the Trust's securities can be sold within the applicable 35-business-day notice period for the annual redemption right. However, the Investment Manager may not be able to do so without adversely impacting transaction prices.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

## 9. Financial instruments risk management (continued):

### (c) Market risk:

#### (i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than the Canadian dollar, which represents the functional and presentational currency of the Trust. The Trust may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure. The Trust's exposure to another currency is as follows:

December 31, 2019:

Currency	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units	
	Cash and cash equivalents	Financial assets	Foreign exchange contract	Total	Total
United States dollar	\$ 433,105	\$ 17,518,060	\$ (14,604,750)	\$ 3,346,415	\$ 33,464
% of net assets attributable to holders of redeemable units	1.5	59.0	(49.2)	11.3	0.1

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

## 9. Financial instruments risk management (continued):

December 31, 2018:

Currency	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units	
	Cash and cash equivalents	Financial assets	Foreign exchange contract	Total	Total
United States dollar	\$ 13,296	\$ 16,082,183	\$ (15,330,060)	\$ 765,419	\$ 7,654
% of net assets attributable to holders of redeemable units	0.1	55.8	(53.2)	2.7	0.0

As at December 31, 2019, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to holders of redeemable units would have decreased or increased, respectively, by approximately 0.1% (\$33,464) (2018 - 0.0% (\$7,654)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### (ii) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is no sensitivity to interest rate fluctuations on any cash balances.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

## 9. Financial instruments risk management (continued):

The Trust has exposure to note subscription receipts (1.8% of net assets (2018 - 0.0%), high yield bonds (2.3% of net assets (2018 - 3.5%)) and defaulted bonds (23.5% of net assets (2018 - 24.5%)) with no exposure to government bonds. Its bond investments tend to be affected more by changes in overall economic growth and company-specific fundamentals rather than changes in interest rates. Changes in interest rates do not directly affect the market value of defaulted bonds as the underlying issuers have stopped making interest payments and thus do not offer a yield component to the holder. However, the Trust's high yield bonds do have a degree of interest rate risk, which is summarized in the table below.

As at December 31, 2019, the Trust's exposure to interest rate sensitive debt instruments by maturity and the impact on its net assets attributable to holders of redeemable units if the yield curve is shifted in parallel by an increase of 25-basis-points ("bps"), holding all other variables constant sensitivity, would be as follows:

	2019	2018
Market by maturity date*:		
1 - 3 years	\$ 207,860	\$ 1,011,685
3 - 5 years	469,732	–
Sensitivity to 25 bps yield change increase or decrease net assets	\$ 3,673	\$ 2,298

\*Excludes cash, defaulted bonds and bonds to be converted to equity.

In practice, actual results may differ from the above sensitivity analysis and the difference could be material.

### (iii) Other price risk:

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from credit risk, interest rate risk or currency risk). All investments represent a risk of loss of capital. The Investment Manager of the Trust moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Trust's investment objectives and strategy. The Trust's overall market positions are monitored on a regular basis by the Investment Manager.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 9. Financial instruments risk management (continued):

As at December 31, 2019, 41.6% (2018 - 37.9%) of the Trust's net assets attributable to holders of redeemable units were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the end of the year, with all other factors remaining constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately 4.2% (\$1,237,197) (2018 - 3.8% (\$1,090,622)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### (iv) Concentration risk:

Concentration risk arises as a result of the concentration of exposures within the same category, whether geographical location, product type, industry sector or counterparty type. In particular, the key concentration risk for the Trust is its exposure to any single security or issuer. As at December 31, 2019, the Trust held an investment in one bond which represented approximately 21.6% (2018 - 22.4%) on a fair value basis and 8.3% (2018 - 6.9%) on a cost basis of net assets attributable to holders of redeemable units.

## 10. Fair value measurements:

Financial instruments are measured at fair value using a three-tier hierarchy based on inputs used to value the Trust's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in public markets for identical assets or liabilities;
- Level 2 - dealer-quoted prices in over-the-counter markets for identical assets or liabilities, or inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

## 10. Fair value measurements (continued):

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following tables present the Trust's financial instruments that have been measured at fair value, on a recurring basis:

2019	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Fixed income	\$ —	\$ 1,244,132	\$ 6,948,729	\$ 8,192,861
Equities	11,694,381	2,104,528	1,666,404	15,465,313
	11,694,381	3,348,660	8,615,133	23,658,174
Foreign exchange contract	—	157,781	—	157,781
	\$ 11,694,381	\$ 3,506,441	\$ 8,615,133	\$ 23,815,955

2018	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Fixed income	\$ 1,011,685	\$ 596,379	\$ 6,457,598	\$ 8,065,662
Equities	9,894,455	1,908,398	1,230,646	13,033,499
Warrants/options	—	84	—	84
	10,906,140	2,504,861	7,688,244	21,099,245
Foreign exchange contract	—	(161,685)	—	(161,685)
	\$ 10,906,140	\$ 2,343,176	\$ 7,688,244	\$ 20,937,560

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

## 10. Fair value measurements (continued):

The tables below show a reconciliation of the opening and closing balance of financial instruments recorded in Level 3:

	Beginning of year, January 1, 2019	Transfer from (to) Level 1	Transfer from (to) Level 2	Unrealized fair value gain (loss)	Sales, purchases, realized gains and other movements	End of year, December 31, 2019
Specialty Foods Group LLC, Post closing payment rights	\$ 196,137	\$ —	\$ —	\$ 114,232	\$ (219,605)	\$ 90,764
GXI Acquisition Corp. - equity	668,378	—	—	175,540	209,129	1,053,047
Old PSG Wind Down - equity	366,131	—	—	(17,889)	—	348,242
Crystallex International Corp.	6,457,598	—	—	(495,424)	463,530	6,425,704
Delphi Energy Corp. Equity Subscription Receipts	—	—	—	—	174,351	174,351
Delphi Energy Corp. Note Subscription Receipts	—	—	—	—	523,025	523,025
<b>Total</b>	<b>\$ 7,688,244</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (223,541)</b>	<b>\$ 1,150,430</b>	<b>\$ 8,615,133</b>

The Trust did not have any significant transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy for the year ended December 31, 2019.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

## 10. Fair value measurements (continued):

	Beginning of year, January 1, 2018	Transfer from (to) Level 1	Transfer from (to) Level 2	Unrealized fair value gain (loss)	Sales, purchases, realized gains and other movements	End of year, December 31, 2018
Speciality Food Group LLC	\$ 18,929	\$ —	\$ —	\$ (18,731)	\$ (198)	\$ —
Speciality Food Group LLC, Class 1 preferred shares	1,175,032	—	—	83,077	(1,258,109)	—
Speciality Food Group LLC, Class 2 preferred shares	2,439,481	—	—	1,960,029	(4,399,510)	—
Speciality Food Group LLC, Post closing payment rights	—	—	—	—	196,137	196,137
GXI Acquisition Corp. - equity	1,126,500	—	—	(458,122)	—	668,378
Old PSG Wind Down - equity	263,618	—	—	102,513	—	366,131
GuestLogix - debenture	19,558	—	—	19,650	(39,208)	—
Dealnet Capital Corp. - debenture	1,454,600	—	—	295,400	(1,750,000)	—
Crystallex International Corp.	2,981,639	—	—	3,375,371	100,588	6,457,598
<b>Total</b>	<b>\$ 9,479,357</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5,359,187</b>	<b>\$ (7,150,300)</b>	<b>\$ 7,688,244</b>

The Trust did not have any significant transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy for the year ended December 31, 2018.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

## 10. Fair value measurements (continued):

The tables below set out information about significant unobservable inputs used as at December 31, 2019 and 2018 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value, December 31, 2019	Valuation technique	Unobservable input	Input value	Sensitivity to changes in significant unobservable inputs
Unlisted private equity	\$ 90,764	Expected future distributions	Reserve for potential representative expense and indemnity claim adjustments	\$ 1,457,494	The estimated fair value would increase (decrease) by \$17,815 or 20% for each 25% (decrease) increase in the reserve amount. Net assets attributable to holders of redeemable units would increase (decrease) by 0.1%.
Unlisted private equity	1,053,047	Present value of expected future cash flows	Discount rate	Mid-point of high-case scenario of 30% and low-case scenario of 35%	The estimated fair value would increase (decrease) by \$167,086 (\$141,276) or 16% (13%) for each 500 bps (decrease) increase in the discount rate. Net assets attributable to holders of redeemable units would increase (decrease) by 0.6% (0.5%).
Unlisted equity	348,242	Expected future distributions	Projected distributions	\$0.52 per share	The estimated fair value would increase (decrease) by \$53,576 or 15% for each \$0.08 increase (decrease) in projected distributions per share. Net assets attributable to holders of redeemable units would increase (decrease) by 0.2%.
Defaulted bonds	6,425,704	Broker quote (mid)	Broker quote	Mid-point of \$110 - \$140 per \$100 face value	The estimated fair value would increase (decrease) by \$771,085 or 12% using the high (low) end the range. Net assets attributable to holders of redeemable units would increase (decrease) by 2.6%.
Unlisted equity subscription receipts	174,351	Cost	n/a	n/a	No input value to sensitize.
Unlisted note subscription receipts	523,025	Cost	n/a	n/a	No input value to sensitize.
	<u>\$ 8,615,133</u>				



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

## 10. Fair value measurements (continued):

Description	Fair value, December 31, 2018	Valuation technique	Unobservable input	Input value	Sensitivity to changes in significant unobservable inputs
Unlisted private equity	\$ 196,137	Expected future distributions	Post closing adjustment escrow claim/reserve amount	\$1,184,430	The estimated fair value would increase (decrease) by \$15,221 or 8% for each 25% (decrease) increase in the claim/reserve amount. Net assets attributable to holders of redeemable units would increase (decrease) by 0.1%.
Unlisted private equity	668,378	Present value of expected future cash flows	Discount rate	30%	The estimated fair value would increase (decrease) by \$66,317 (\$58,679) or 10% (9%) for each 500 bps (decrease) increase in the discount rate. Net assets attributable to holders of redeemable units would increase (decrease) by 0.2%.
Unlisted equity	366,131	Expected future distributions	Projected distributions	\$0.52 per share	The estimated fair value would increase (decrease) by \$56,328 or 15% for each \$0.08 increase (decrease) in projected distributions per share. Net assets attributable to holders of redeemable units would increase (decrease) by 0.2%.
Defaulted bonds	6,457,598	Average of broker quotes and last price	Broker quote	\$106 - \$155 per \$100 face value	The estimated fair value would increase (decrease) by \$1,415,973 (\$1,054,043) or 22% (16%) using the high (low) end of the range. Net assets attributable to holders of redeemable units would increase (decrease) by 4.9% (3.7%).
	<u>\$ 7,688,244</u>				

The Investment Manager is responsible for performing the fair value measurements included in the financial statements of the Trust, including Level 3 measurements. The Investment Manager obtains pricing for Level 3 financial instruments from third-party pricing sources, which is reviewed and approved by the Investment Manager.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Years ended December 31, 2019 and 2018

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## 10. Fair value measurements (continued):

Financial instruments not measured at fair value:

- (a) The cash and cash equivalents, interest and dividends receivable, accounts payable and accrued liabilities, management and administrative fees payable and incentive fee payable are short-term financial assets and financial liabilities are initially recorded at amortized cost which carrying amounts approximate fair values.

Cash and cash equivalents and interest and dividends receivable include the contractual amounts for settlement of trades and other obligations due to the Trust. Accruals represent the contractual amounts and obligations due by the Trust for settlement of trades and expenses.

- (b) The Trust's redeemable units are considered a residual interest in the assets of the Trust after deducting all of its liabilities. The redemption value of redeemable units is equal to net assets attributable to holders of redeemable units as calculated in accordance with the Declaration of Trust. The units are redeemable annually, at the holders' option, for cash equal to the proportionate share of the Trust's net asset value attributable to the share class, as described in the Declaration of Trust and in note 5(c).

## 11. Capital disclosures:

The Investment Manager has policies and procedures in place to manage the capital of the Trust in accordance with the Trust's investment objectives, strategies and restrictions, as detailed in the Declaration of Trust. Information about the capital is described in the statements of changes in net assets attributable to holders of redeemable units and the Trust does not have externally imposed capital requirements.



EXHIBIT 21 TO THE  
CROSS-  
EXAMINATION  
OF S. REID

April 17, 2019

NOTICE TO READER

Re: Ravensource Fund – Management’s Letter to Unitholders – For the Year Ended December 31, 2018

To whom it may concern,

Please note that a correction to the release originally filed on April 16, 2019 under SEDAR project number 02902484 is attached as a second submission to the original filing project. The correction relates to a typo “Maheshf” located on the third last page of the originally filed document. This has been corrected to “Mahesh”. No other content has changed.



## MANAGEMENT'S LETTER TO UNITHOLDERS

FOR THE YEAR ENDED DECEMBER 31, 2018

## NOTICE TO READER

The purpose of Ravensource's Management's Letter to Unitholders is to impart information and analysis to Ravensource's unitholders to allow a thorough understanding of their investment. This letter is a supplemental report to the financial statements, Management Report on Fund Performance ("MRFP"), Annual Information Form ("AIF") and the Independent Review Committee ("IRC") report. You can get a copy of the aforementioned documents and the Fund's proxy voting policies and proxy voting record by calling (416) 250-2845, by writing to us at Stornoway Portfolio Management 30 St. Clair Avenue West, Suite 901, Toronto, ON M4V 3A1, by visiting our website at [www.ravensource.ca](http://www.ravensource.ca), or the SEDAR website at [www.sedar.com](http://www.sedar.com).

### A Note on Forward-Looking Statements

This document may contain forward-looking statements relating to anticipated future events, results, decisions, opportunities, risks or other matters. Forward-looking statements are predictive in nature requiring us to make assumptions and subject to inherent risks and uncertainties. Our forward-looking statements may not prove to be accurate, or a number of factors could cause actual events, results, etc. to differ materially from expectations, estimates or intentions. These risk factors include market and general economic conditions, regulatory developments, the effects of competition in the geographic and business areas the fund may invest and others as detailed in Ravensource's Annual Information Form. Forward-looking statements are not guarantees of future performance. For these reasons, it is important that readers do not place undue reliance on our forward-looking statements and should be aware that Ravensource may not update any forward-looking statements.

### About the Ravensource Fund

The Ravensource Fund is a closed-end investment trust whose units trade on the TSX under the symbol RAV.UN. The principal objective of Ravensource is to achieve absolute long-term returns through investing in out-of-favor and deep-value North American securities. Ravensource's investments fall primarily in three categories:

1. *Distressed Securities*: investing in corporate debt, creditor claims and/or equity securities of companies which are in, perceived to be in, or emerging from financial distress at a value materially different from what we believe to be the underlying fundamental value of the securities.
2. *Special Situations Equities*: investing primarily in Canadian and U.S. small and mid-cap equities that are not only attractively valued but also with catalysts to unlock value.
3. *Alternative Credit*: investing in corporate debt, on either a primary or secondary basis, that is reasonably expected to be repaid at or above par, on or before its stated maturity, and in a manner consistent with the terms of its indenture.

### About Stornoway Portfolio Management ("Stornoway")

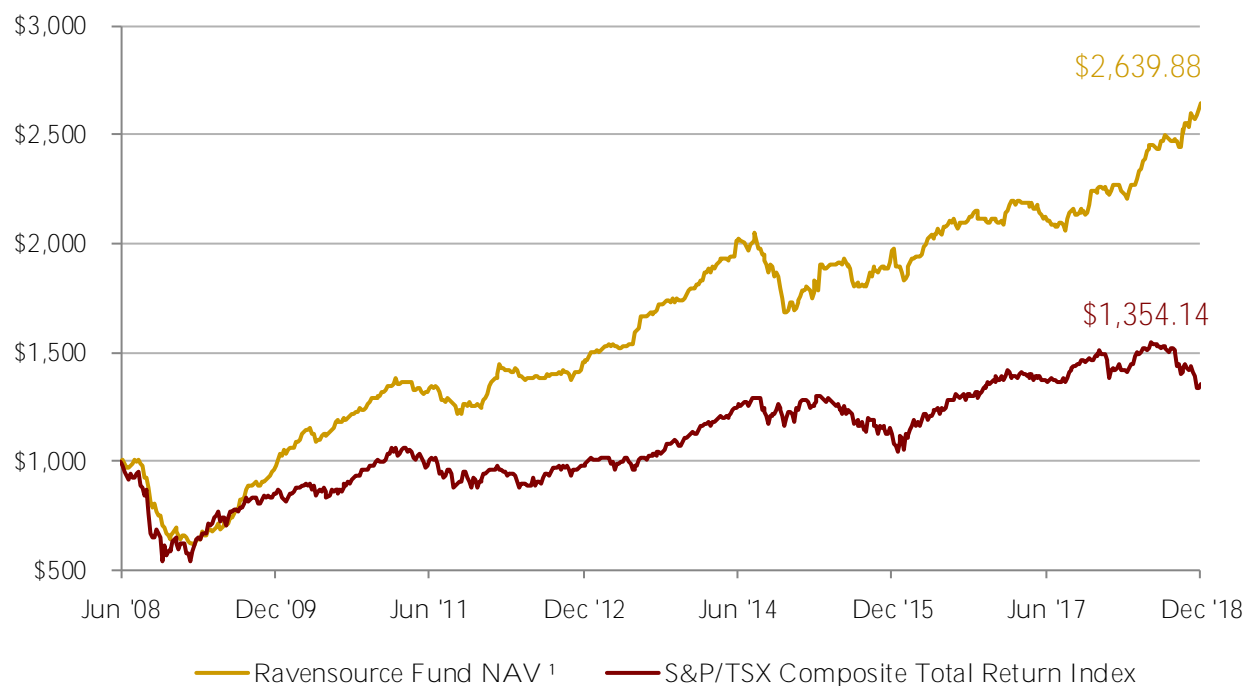
Stornoway was appointed the Fund's Investment Manager on July 1, 2008 to execute Ravensource's investment mandate. Stornoway took over the management of Ravensource from Pat Hodgson. Pat was our partner, an extraordinary investor and a true buccaneer who in 2003 transitioned Ravensource from investing in debt of Asian companies — the Fund was formerly The First Asia Fund — to focus on North American securities. Pat left us with a tremendous legacy that forms the guiding principles we embrace in managing Ravensource.

Stornoway is a Toronto-based, employee-owned investment management firm focused on investing in distressed securities and other out of favor investment opportunities that withstand a thorough and disciplined analytical rigor prior to investing and active involvement thereafter. The Stornoway Team is comprised of Brandon Moyse, Daniel Metrikin and Scott Reid on the investment side while Mahesh Shanmugam manages our operations. Our bios and our approach to investing can be found on the Ravensource website. In addition to Ravensource, Stornoway manages the Stornoway Recovery Fund LP, a limited partnership that invests in opportunities that arise from companies that are in or near financial distress.

Past investment performance by the Ravensource Fund is not indicative of future results and there cannot be any assurances that its investment objectives will be achieved. This letter is not a solicitation to invest.

## MANAGEMENT'S LETTER TO UNITHOLDERS

## Growth of \$1,000



(1) Based on net asset value per unit, assuming all distributions are reinvested in units at net asset value.

### Dear Fellow Unitholders,

We are pleased to report that Ravensource Fund's ("Ravensource" or "the Fund") net asset value ("NAV") per unit increased by 17.0% over the year ended December 31, 2018 including the distributions Ravensource investors received over 2018.

Our 2018 performance was particularly striking against the negative returns of most market indices. Before you accuse us of patting ourselves too hard on the back, we do not place much weight on short-dated results. Our two largest contributors to this year's performance, Crystallex and SFG, demonstrate that it takes several years for our investment theses to crystallize and that our rewards are typically skewed to the end of an investment's life. Our objective is to generate superior long-term results which requires us to avoid the noise of short-term thinking and market fluctuations. I will let you determine if we have achieved that mark.

Our results confirm what we believe is a unique quality of Ravensource: a focus on company-driven catalysts to create value for our investors. The Fund's investments are concentrated in unconventional and often counter-intuitive opportunities – the securities of financially distressed and other unloved and out of favor companies – which most investors shun. As such, our returns do not depend on market forces but primarily arise as investee companies achieve milestones to break the chains that once held them down, as SFG and Crystallex did this year. In doing so, Ravensource's returns are generally uncorrelated with those of the broader market. A further differentiating characteristic is that we are often very actively involved with the underlying investments to help secure these milestones.



These idiosyncratic qualities of Ravensource provide individual investors exposure to investment strategies that are otherwise difficult to access and can have a powerful diversifying impact on their portfolio.

Our goal for this letter is simple: report to you in a frank and open way about the philosophy and approach that guides our investment decisions; the rationale for and changes in Ravensource's investment portfolio; the Fund's performance over the reporting period; and some of the risks to which Ravensource is exposed. We do so to help you better understand your Ravensource investment.

## Investment Performance

Ravensource's investment portfolio generated a return of 22.84% before fund expenses and management / incentive fees. The investments that have made the most significant contributions — positively and negatively — to Ravensource's performance in 2018 are as follows:

Investment	Impact on Fund <sup>1</sup>
Crystallex International Corp. 9.375% Senior Notes	13.48%
Specialty Foods Group LLC.	8.08%
Genworth Financial Inc.	3.56%
Spanish Broadcasting System Inc.	0.92%
Supremex Inc.	(1.25%)
GXI Acquisition Corp.	(1.83%)
Other <sup>2</sup>	(0.11%)
Pre-expense / Incentive Fee Investment Return	22.84%

<sup>1</sup> Increase in NAV due to investment's total return for the period

<sup>2</sup> Includes other asset investment returns

We would like to review some of these investments:

### *Crystallex International Corp. ("Crystallex")*

Our investment in Crystallex's 9.375% senior notes (the "Senior Notes") was the largest contributor to the Fund's performance over 2018 as the market price of the Senior Notes nearly doubled over the year. Despite this significant increase in price, we believe the Senior Notes remain a very compelling investment. Here's why.

Crystallex began 2018 in the midst of the battle with Venezuela over payment of the USD \$1.4 billion damages award for the expropriation of Crystallex's Las Cristinas gold property. A temporary détente was reached in September 2018 in the form of a settlement agreement (the "September 2018 Settlement Agreement") whereby Venezuela made a USD \$425 million upfront payment in the form of cash and marketable securities. For Crystallex's Senior Noteholders, the September 2018 Settlement Agreement was a game changer: Crystallex now has sufficient property to pay off its creditors / us. What is now at stake is how much each stakeholder – Crystallex's management, DIP lender and shareholders – should receive of the September 2018 Settlement Agreement and when it is going to be distributed.

Crystallex hasn't paid interest on its Senior Notes since July 2011 and failed to repay its principal on its December 2011 maturity date following which it filed for bankruptcy protection. Accordingly, Crystallex contractually owes its Senior Noteholders principal and interest compounded at the 9.375% coupon since it last made an interest payment in addition to the extra consideration provided to us in the Standstill Agreement. Based on our math, those amounts greatly exceed the December 31, 2018 market price. However, we believe we are entitled to more than simply our 9.375% coupon as creditors have been exposed to far greater risks and over a much longer time than originally bargained for when the notes were issued.

Any amounts paid to us represent a zero-sum game. What we gain, the other stakeholders stand to lose and as such will almost certainly challenge the amount we are due. However, we are not alone in this fight to protect our rights and maximize our recovery. We are very active members of the Ad Hoc Senior Noteholder Committee with two other financially savvy institutional investors with significant skin in the game and deep with relevant expertise and experience. We are well-advised by the restructuring team at Goodmans LLP who we believe is Canada's #1 law firm on such matters. We have resolve, conviction that the law is on our side, and are very well prepared.

With the collateral safe in Crystallex's Canadian-domiciled accounts, our investment has been significantly de-risked, the path to a large recovery has been bush-whacked out and we are now somewhat insulated from the geopolitical mayhem currently engulfing Venezuela. On the back of achieving these pivotal milestones, the market price of the Senior Notes increased significantly over 2018. Despite this increase, we believe if / when Crystallex makes good on those missing principal and interest payments, we will realize a healthy return over and above December 31<sup>st</sup>, 2018 market prices on this rather contrarian investment. As they say, fortune favours the brave...and diligent.

#### *Specialty Foods Group ("SFG")*

The courtship between SFG and potential strategic investors that began in early 2018 was consummated on August 23<sup>rd</sup>, 2018 with Indiana Packers Corporation ("IPC") winning the beauty contest to acquire SFG. After clearing various deal conditions, the sale of SFG closed on October 1<sup>st</sup> whereupon we received more than 95% of the purchase price in cash. The residual is held in escrow while post-purchase price adjustments on items such as working capital, pension plan and environmental liabilities get finalized. While the economic terms have not been publicly released, the sale price was extremely attractive from our perspective and materially exceeded the value our 3<sup>rd</sup> party valuator placed on our SFG investment at the start of 2018.

October's sale marked the end of an incredible journey that started when SFG was on the brink of bankruptcy resulting from a botched strategy of acquiring small meat processors financed with debt. From structuring the initial rescue financing right up to negotiating its sale to IPC, the Stornoway Team was actively involved in SFG's turnaround. Scott was a member of SFG's Board of Directors since 2007 while Brandon and Daniel rode herd on the investment bankers to ensure the sale process bore fruit. Our initial efforts were to stabilize SFG by returning it to its core competencies — Nathan's hot dogs and Kentucky smoked hams — through selling the other operations and reducing debt with the proceeds. Once stabilized, we focused on revitalizing SFG by feeding its ham and hot dog ambitions that its previous owners ignored and its debt load would not allow. I can confidently say our involvement played a significant role in working with the SFG's

management team to increase the value of our investment. Along the way, we ate some hot dogs, ham and smoked turkey to make sure they passed Stornoway's stringent quality control.

Our investment was very lucrative, growing by approximately 6.5x our original cost over its 12-year holding period and generating an annualized return of 24.7%. It was also a large position representing 19.7% of the Fund's net assets at the time of sale even after we received cash representing almost 3.7x our cost between 2010 and 2017. Beyond the direct economic rewards, SFG taught us many lessons, made us better investors and businessmen, and sharpened our edge that we can apply to our current and future investment opportunities.

*Genworth Financial Inc. ("Genworth")*

Genworth is a publicly listed (NYSE: GNW) U.S.-based company focused on the long-term care, mortgage and traditional life insurance markets. In October 2016, it agreed to be acquired by China Oceanwide Holdings Group Co. Ltd. ("China Oceanwide"), a Chinese real estate and financial services firm, for \$5.43 per share in cash.

Following the announcement, Genworth stock persistently traded at a large discount to the buyout price relative to most risk arbitrage opportunities. Market commentators cited larger than typical regulatory risks aka 'Trump vs. China' as the reason. We purchased the bulk of our position in 2017 below \$3.75/share, believing the market was overpricing the regulatory issues and that the merger would close as advertised. If correct, we would earn a 45% un-annualized return on our investment. If not, we believe the value of Genworth's businesses exceeds the current market price of its shares although our investment would like suffer an initial mark-to-market loss.

Contrary to the market's expectation, the proposed merger received a number of key regulatory approvals in 2018 including the all-important Committee on Foreign Investment in the US (CFIUS) and the Chinese National Development and Reform Commission. In response, Genworth shares rose to \$4.66 by December 31, 2018, generating a 50% return over 2018 and rendering it our 3<sup>rd</sup> best performing investment. Risks that the merger does not close remain: key approvals from Canada's Office of Superintendent of Financial Institutions / Minister of Finance and China's State Administration of Foreign Exchange remain outstanding. However with a potential 16% return from December 31, 2018 market prices, we continue to believe the reward is worth the risk.

*GXI Acquisition Corp. ("GXI")*

Guestlogix is a private Canadian technology company whose enterprise software solutions are tailored to capture ancillary revenue for its airline customers. GXI is the holding company through which Ravensource, the Stornoway Recovery Fund LP, and two other investors acquired Guestlogix out of insolvency. Over the course of 2018, Guestlogix's revenue declined as it lost a couple customers. As a result, our third-party valuator reduced the value of our investment which was the largest negative contributor to the Fund's performance last year.

When we bought Guestlogix, we recognized massive untapped potential in the captive audience of the million-plus daily passengers on flights using its technology. To complement our financial know-how, we partnered with a very successful technology investor who brought his views as to

how Guestlogix could leverage its passenger relationships into new markets. Over 2018, the Guestlogix team took major steps to engineer software and develop partnerships to enable it to capture this opportunity. As board members, we took unconventional actions by replacing the existing CEO with the Senior Vice President of Product who had the vision to take this leap. By the end of 2018 the initial passenger application was completed and a forward-thinking airline had committed to signing, validating the company's strategic evolution. Since then, other airlines have expressed interest and we expect to launch commercially this year.

Despite the write-down of our GXI investment, we are confident the company is on the right path. However, it is still early days. While in 2018 Guestlogix engineered a product that has re-captured the interest of airlines, commercial success will ultimately depend on passenger usage which we won't have clarity on until the latter half of 2019 / early 2020. We remain excited about the potential of our GXI investment.

### Relative Performance

The Fund's objective is to produce significant long-term returns for its investors regardless of market conditions. This is called "absolute" performance and the first part of this letter outlined the Fund's investments that have contributed to — or detracted from — attaining this objective.

While generating attractive, long-term results is our mission, we realize that you may want to measure our performance relative to other investment vehicles or benchmarks. To help facilitate this process, we have identified several indices — see Appendix 1 for their descriptions — that we believe are appropriate in assessing Ravensource's "relative" performance. However, given the idiosyncratic nature of the Fund's investment strategy, we have not uncovered an index that sufficiently resembles Ravensource to the degree it should be considered / used as a benchmark.

The table below outlines the historical performance of Ravensource and the various indices. Please note that all returns are calculated on a total return basis and only reflect the Fund's performance since Stornoway became Ravensource's Investment Manager in July 2008.

Annualized Total Return	2018	Last 3 Years	Last 5 Years	Last 10 Years	Since July 1, 2018 Annual	Total <sup>(2)</sup>
Ravensource Fund <sup>(1)</sup>	17.1%	10.3%	8.3%	14.7%	9.7%	164.0%
S&P/TSX Composite Total Return Index	(8.9%)	6.4%	4.1%	7.9%	2.9%	35.4%
S&P/TSX Small Cap Total Return Index	(18.2%)	5.2%	(0.3%)	6.6%	0.4%	4.1%
ICE BofAML US High Yield Index <sup>(3)</sup>	6.0%	6.7%	9.1%	12.2%	10.4%	182.4%
Credit Suisse Distressed Hedge Fund Index <sup>(3)</sup>	6.8%	3.4%	7.0%	7.3%	6.5%	94.4%

(1) Based on net asset value per unit, assuming all distributions are reinvested in units at net asset value.

(2) Un-annualized return

(3) Translated into Canadian dollars

As seen in the table above, our absolute returns in 2018 significantly outperformed all of the indices we use to measure the Fund's relative performance.

While the Fund's short-term results are encouraging, we believe that investment performance is more appropriately judged over a longer time horizon as it reveals whether the investment process is repeatable and how it weathers the ups and the downs of the market. In addition, that approach is consistent with our objective to create long term capital appreciation for our investors and the 2- to 4-year period it typically takes the market to recognize the value we did at the time of investment.

For periods exceeding one year, Ravensource's performance remains at or close to the top of the table. Since Stornoway began managing Ravensource in July 2008, the Fund's NAV per unit has increased by 164.0% in total and 9.7% on an annualized basis, including re-invested distributions. By comparison, the S&P/TSX Composite Total Return Index has increased by 35.4% in total / 2.9% annualized over the same time period. Admittedly, our 2008 results tried the fortitude of our investors, but the lessons learned from it led to the refinement of our investment process, hardened our selection criteria and, in our view, are responsible for the Fund's outperformance ever since.

## Fund Liquidity and Investment Activity

### *Liquidity*

The purpose of reporting the Fund's net cash position is to quantify the gunpowder available to opportunistically add to existing positions or establish new ones. In addition, the change in net cash can be viewed as a barometer of our investment activities in that it will capture whether the Fund is a net buyer or seller during the period. Measured as a percentage of net assets, our net cash increased from 6% at the beginning of the year to 27% as of December 31, 2018.

The sources and uses of the Fund's net cash during the period are outlined below:

	Amount	per Unit	% of NAV <sup>(1)</sup>
<i>Sources</i>			
Investment Divestitures	11,411,832	6.82	39.6%
Dividends and Interest	601,669	0.36	2.1%
Total	12,013,501	7.18	41.7%
<i>Uses</i>			
Investment Purchases	3,707,450	2.22	12.9%
Financial Contract & FX on Cash	308,415	0.18	1.1%
Expenses	1,429,288	0.85	5.0%
Distributions to Unitholders	501,861	0.30	1.7%
Total	5,947,014	3.55	20.6%
Change in Net Cash	6,066,487	3.63	21.1%

(1) % of December 31, 2018 NAV

### *Divestitures*

We divested approximately 40% of the Fund's net assets over the course of 2018. Most notably, we exited our investments in Specialty Foods Group Inc., NAPEC Inc., and Dealnet Capital Corp. In each case, these were very successful investments that had reached the end of their lifecycle which we monetized at valuations which met or exceeded our thresholds.

### *NAPEC Inc. ("NAPEC")*

As we wrote in our June 30<sup>th</sup>, 2018 Letter to Unitholders, NAPEC announced in December 2017 that it had agreed to be acquired by Oaktree Capital Management at a price of \$1.95 per share. The transaction received its requisite approvals and closed in February 2018. We supported the Oaktree transaction as it met our long-term valuation of the company. However, we elected to sell Ravensource's position at \$1.94 per share prior to the vote to eliminate the risk that shareholders voted down Oaktree's proposal, which could have caused NAPEC shares to fall back to their \$1.25 pre-announcement trading price. For a mere penny, we were able to secure cheap insurance against a large loss triggered from a failed vote. Over the approximate four years that Ravensource owned the position, the NAPEC investment generated a 27% annualized compounded return.

### *Dealnet Capital Corp. ("Dealnet")*

Frequently, we invest in companies that are solid at their core and rough around the edges. Dealnet, however, was the opposite. In December 2017, when Dealnet came knocking for capital to fund their liquidity needs, we were unexcited by their core consumer loan business for HVAC equipment. From our perspective, we simply did not see a path to profitability; lending less than \$10k at a time at a sub-10% interest rate would likely not cover the costs associated with administering the loans let alone provide an adequate return to shareholders. Yet by sifting through its non-core assets and applying our structuring ingenuity, we led a \$12 million rescue financing in the form of a bond secured against Impact Mobile, one of Dealnet's non-core segments, at a loan-to-value ratio of about 50%.

In structuring our investment, we were mindful that as Dealnet needed to sell assets, we needed an exit. We embraced that alignment by including positive and negative covenants to motivate Dealnet to sell Impact Mobile quickly and repay us out of the proceeds. We further aligned ourselves with Dealnet's decision makers by requiring the senior management team and corporate directors to participate alongside us in the bond offering. Lastly, by paying only 90 cents on the dollar for the bonds, as long as we were repaid, the return would take care of itself.

In July 2018, Dealnet closed the sale of Impact Mobile for \$27.5 million and we were repaid in full in just over 6 months, earning an attractive 28.2% annualized return on our capital. This successful outcome reflects our creative approach to deal structuring and proactive risk management, both key components of the 'Stornoway edge'.

### *Investment Purchases*

During 2018, we increased our investment in Flow Capital Corp. debentures, Crystallex International Corp. Senior Notes, and Genworth Financial Inc. common shares while establishing new positions in Dundee Corp. preferred shares and Spanish Broadcasting System Inc.'s Senior Notes.

### *Flow Capital Corp. ("Flow Capital")*

Flow Capital is a publicly listed Canadian company (TSXv: FW) that resulted from the amalgamation of Grenville Strategic Royalty Corp. ("Grenville") and LOGiQ Asset Management ("LOGiQ") in 2018. Grenville invests in emerging high-growth companies through royalty structures while LOGiQ is a fee-based third-party marketer for investment funds. Ravensource

owns a significant portion of the former Grenville 8% bonds due in December 2019 at a cost of \$80 per \$100 bond. Over 2018, Ravensource increased its investment by 38%.

The amalgamation was a very positive event for us as the assets backing our Flow bonds now included LOGIQ's. Against \$22 million of Flow bonds there is now \$9 million of cash, \$24 million of royalty investments and a funds marketing business generating \$1.5 million of annual cash flow, conservatively worth \$9 million. By our math, there is almost \$2 of assets for every \$1 of bonds. The market agreed with us and the price of the bonds increased from \$80 to \$93 by the end of 2018. While the price of the bonds has increased, the margin of safety has improved even more significantly creating a more attractive risk / reward profile. As such, we continue to acquire bonds opportunistically at yields in excess of 18%.

#### *Dundee Corporation ("Dundee")*

Dundee (TSX: DC.A) is a publicly listed holding company headquartered in Toronto. Founded in 1991, Dundee became one of the largest independent asset managers in Canada.

In 2011, Dundee sharply pivoted from what worked in the past by selling its asset management and real estate crown jewels only to hastily spend the proceeds on speculative new investments across ~100 holdings mostly in industries in which Dundee had no expertise. These new investments have performed abysmally, causing Dundee to write-down approximately 70% of its invested capital only a few years after they were made. In turn, Dundee's common shares has fallen in value by over 95% since its peak in 2013 while its Series 2 & 3 preferred shares tumbled to approximately 50 cents on the dollar despite being Dundee's most senior securities. Across the capital structure, Dundee's investors lost confidence, panicked and fled.

Free of emotional baggage carried by existing investors, we worked to determine whether there was opportunity within the chaos. With Dundee's portfolio of ~100 names, we first performed triage to cull the smaller and speculative investments and focused our analytical rigour on the remaining few with tangible and obvious value. Our analysis concluded Dundee's assets were worth in excess of the face value and 3x the market value of its preferred shares. We were also attracted to the preferred shares' 12% dividend yield, equivalent to 15.7% interest on a bond factoring in the tax advantages of dividends. In the third quarter of 2018 we began buying the Series 2 & 3 preferred shares, based on a large margin of safety, healthy yield and potential catalysts for meaningful capital appreciation.

#### *Distributions*

Ravensource's distribution policy is to make semi-annual distributions to unitholders in an amount to ensure that it does not incur any tax while providing a reasonable yield. Total distributions for 2018 amounted to \$0.30 per unit, down from \$0.37 per unit in 2017.

#### **Operating Expenses**

Ravensource's operating expenses include investment management fees, trustee fees, TSX listing fees, interest and borrowing costs, accounting and audit expenses, IRC costs, legal and professional expenses, transaction costs and other sundry operating expenses. The table below shows how these

expenses reduced the Fund's gross return on investment to arrive at the Fund's net investment return in 2017 and 2018. Please note, operating expenses as expressed below is not to be confused with the Management Expense Ratio ("MER"). Operating expenses for the purposes of MER are calculated using the Fund's *average* net assets during the period while operating expenses as expressed below are calculated using the Fund's *starting* net assets for the period. For further details regarding the Fund's MER, please refer to the Management Report on Fund Performance.

	Dec 31, 2018	Dec 31, 2017	YoY Change
Pre-expense / Incentive Fee Investment Return	22.84%	8.75%	
Less:			
Management, administrative and IR fees	0.87%	0.66%	0.21%
Audit and accounting fees	0.23%	0.24%	(0.01%)
Legal fees	0.40%	0.19%	0.21%
Interest expense	0.36%	0.24%	0.12%
Trust administration and transfer agency fees	0.06%	0.05%	0.01%
Listing fees	0.08%	0.09%	(0.01%)
Independent review committee fees	0.13%	0.05%	0.08%
Transaction costs	0.12%	0.06%	0.06%
Other operating expenses	0.04%	0.03%	0.01%
Total Expenses Before Incentive Fee	2.29%	1.61%	0.68%
Pre-Incentive Fee Investment Return	20.55%	7.14%	
Less:			
Incentive Fee	3.53%	0.49%	
RavenSource Fund Net Investment Return	17.02%	6.65%	

For the year ended December 31, 2018, RavenSource's operating expenses, excluding the incentive fee, was 2.29%, 68 basis points higher than the comparable period in 2017. The increase in operating expenses was primarily the result of a period-over-period increase in management, administrative and IR fees (21 basis points), legal fees (21 basis points), interest expense (12 basis points), independent review committee fees (8 basis points) and transaction costs (6 basis points).

Management, administrative and IR fees remained low / less than 1% of Net Assets during 2018 due to the Investment Manager's policy of passing along the economic benefit of fees received for providing services to investee companies back to the Fund by reducing its management fees. However, as the Investment Manager sold its Specialty Foods Group investment during 2018, we were not able to reduce the Management Fee by the magnitude we have in the past. This resulted in a 21 basis point period-over-period increase in these fees versus 2017. We expect management and administrative fees to increase to 1.13% of average net assets in 2019.

RavenSource incurs legal fees to maximize and / or protect the Fund's investments, to comply with securities regulations, and to deal with general Fund matters. Over 2018, legal fees related to RavenSource's investments - primarily on Spanish Broadcasting and Crystallex - increased by 10



basis points compared to 2017 while regulatory, compliance and other Fund legal expenses increased by 11 basis points versus 2017.

### Incentive Fee

As detailed in the Portfolio Management Agreement, the Investment Manager is entitled to an incentive fee equal to 20% of the amount by which the net asset value per unit at the end of the year, adjusted for contributions, distributions, and redemptions during the year, exceeds the net asset value per unit at the beginning of the year over and above the 5% hurdle rate, plus any shortfalls from prior years (the "Incentive Fee").

As Ravensource's investment portfolio generated a return of 20.55% after expenses but prior to the Incentive Fee over 2018, the Incentive Fee for the year ended December 31, 2018 amounted to 3.53% of starting net assets versus 0.49% for the comparable period in 2017. The increase in the Incentive Fee is somewhat of a high-class issue for investors as it is a direct result of the increase in value of their Ravensource investment over and above the 5% hurdle rate. The correlation between the Incentive Fee and the Fund's performance highlights our alignment with Ravensource's investors.

### Risks

At the time of investment and throughout the period we own a security, we take particular care in assessing its risk and impact on the portfolio. A key risk management tool is that we purchase securities at prices substantially below what we have conservatively determined as their intrinsic value and often become actively involved to ensure that our rights and recoveries are protected. As demonstrated in our Dealnet bond investment, to the extent possible we structure our investments to mitigate the risk of loss. However, despite our deal structuring, thorough analysis, and active involvement, sometimes we are just wrong or the potential of a given investment does not materialize thus exposing our investors to a loss of capital.

In addition to the risks specific to a particular investment, the Fund is exposed to changes in foreign exchange rates, interest rates, credit conditions and other economic factors as described in the Annual Information Form, on the Ravensource website and in the notes attached to our financial statements. We encourage all investors to carefully read the Fund's financial statements, including the additional disclosure in the notes to the financial statements, as we do prior to investing.

There has been no change in the Fund's stated investment strategy or in the execution of the investment mandate that would materially affect the risk of investing in Ravensource in 2018. We continue to believe the Fund is suitable for those investors seeking long-term capital growth, have a long-term investment horizon, and possess a medium to high risk tolerance to withstand the ups and downs that go along with investing in out-of-favor securities.

### Portfolio Composition

To give you a better understanding of the risks that Ravensource is exposed to, we have broken out the portfolio by investment strategy, enterprise value, industrial grouping and concentration.

### *Investment Portfolio by Strategy*

In 2018, we renamed our “High-Yielding Securities” investment strategy to “Alternative Credit” to better describe the range of investing activities we employ in our “going concern” debt / lending strategy. This is only a change of nomenclature, not a change to our lending / credit investing practice.

Over 2018, the investment portfolio became more weighted towards our Distressed Securities strategy and away from Special Situations Equities. However, this was not a product of a decision at the strategy level as we do not target specific strategy weightings. Rather, we select the most attractive investment opportunities wherever they are found. Over 2018, our Distressed Securities strategy was simply a more fertile hunting ground as evidenced by our new investment in Dundee preferred shares.

By Investment Strategy	% of Investment Portfolio	
	31-Dec-18	31-Dec-17
Special Situation Equities	38.3%	47.9%
Distressed Securities	54.1%	43.2%
Alternative Credit	7.6%	8.9%
Total	100.0%	100.0%

### *Investment Portfolio by Industrial Group*

While Ravensource does not specialize in specific industries, our experience and investment philosophy lead us to focus on companies with hard assets. We like to invest in companies in which we understand the products/services they offer and more importantly have a strong grasp of the business model and its tangible asset value. Thus, it should not come as a surprise to see more traditional industries favored in our portfolio, which is more of an outcome of our investment process than a pre-ordained allocation. Further, our emphasis on an investment’s margin of safety generally results in avoiding the more sensitive sectors of the economy.

By Industrial Group	% of Portfolio
Metals & Mining	30.5%
Financial	28.3%
Real Estate	16.5%
Media & Publishing	13.8%
Technology	3.2%
Food & Beverage	2.9%
Retail	2.8%
Industrial	2.0%
Total	100.0%

### *Concentration*

We believe that the most effective method to reduce/manage risk is to know your investments inside and out, be actively involved and have sufficient influence on them to help effect change such as a restructuring. This will often lead to Ravensource having a more concentrated portfolio than other investment funds. Ravensource’s position limit is 10% on a *cost* basis for a given corporate entity. For investments that we have our highest conviction in, we will invest up to the limit if prudent. Post our investment, market fluctuations may increase an investment in excess of 10% of the Fund’s net assets on a *market value* basis.

As of December 31, 2018, the Fund had five investments exceeding 5% of NAV on a market value basis. The top 10 investments ranked by market value, excluding cash, represented 69.1% of NAV

as of December 31, 2018. We expect that the Fund will continue to concentrate our capital in positions that we know the best and where we hold the strongest convictions.

### ***“Skin in the Game”***

The Stornoway Team is passionate about the approach and philosophy that drives our investment decisions, our active involvement in the companies we invest in, and the steps we take to reduce risk and generate investment returns. One of our core tenets is that we treat our fellow investors as partners. Accordingly, we believe that an investment manager should have significant “skin in the game”, sharing in the risk and reward of our decisions alongside other investors. Each member of the Stornoway Team has a substantial personal investment in Ravensource and as of December 31, 2018, I owned approximately 9.8% of the total units of Ravensource outstanding. In short, we eat our own cooking. We are you.

### ***Concluding Remarks***

On the surface, our performance in 2018 could be chalked up to the rewards of making counter-intuitive investments and ultimately getting them right. To generate superior results for our investors, we believe that to be true. However, our results are not an artefact of our prescient powers nor an invention that occurred in 2018 alone. Rather, they represent the work product of our curious minds to attain conviction prior to our investment followed by many years of getting our fingernails dirty through active involvement with the investee companies to capture the value we identified at the time of purchase. In layman’s words, Ravensource’s results reflect both parts *and* labour.

Rather than resting on the laurels of 2018, we look to it as a blueprint to the future. This process is one that we have continued to hone over the 15 years Stornoway has been in business. The earlier stage investments in our portfolio – GXI, Spanish Broadcasting, and Dundee – are following that blueprint and will require our capital, active involvement and focus in order to replicate our successful results of the past. We are very optimistic and excited for the future.

In writing this review, we wrestle with the twin objectives of being thorough yet succinct. We recognize that despite our effort to cut to the essentials, there remains a lot of information to digest. As always, we are available via phone and/or in person to discuss your investment further. Please don’t hesitate to contact us. We always look forward to hearing from unitholders and enjoy discussing our investments and strategy with you.

On behalf of Brandon, Daniel, Mahesh and myself, we greatly appreciate the partnership, trust and long-term perspective of our fellow investors, aka you. We are dedicated to protecting and growing your capital for years to come.



Scott Reid  
President and Chief Investment Officer  
Stornoway Portfolio Management Inc.  
Investment Manager of the Ravensource Fund

April 2019

## Appendix 1 - Ravensource's Use of Comparable Indices

Given the idiosyncratic nature of the Fund's investment strategy, the Investment Manager does not believe there is an index that sufficiently resembles the Fund to the degree it should be considered or used as a "benchmark". However, the Investment Manager provides historical performance data for several indices in addition to the results of the Fund for comparison purposes. The Investment Manager has chosen indices that it believes are relevant to the investment mandate of the Fund and / or to capital markets in general. However, while each of these indices overlap with certain aspects of the Fund's mandate, none of them share significant similarities with the Fund's investment portfolio:

- The S&P/TSX Composite Total Return Index ("S&P/TSX") is the principal broad-based measure commonly accepted by investors to measure the performance of Canadian equity markets. The S&P/TSX is a relevant index for comparison purposes as the Fund's investment portfolio contains Canadian equity investments and the Fund's debt investments are frequently converted into equity securities as part of the restructuring process. However, the performance of the S&P/TSX will vary greatly from the Fund as its investment portfolio is primarily comprised of securities that are not included in the S&P/TSX.
- The S&P/TSX Small Cap Total Return Index ("TSX Small Cap") tracks the performance of the Canadian small cap equity market. The TSX Small Cap is a relevant index for comparison purposes as the Fund invests in Canadian small cap companies that are attractively valued with catalysts to unlock value. However, the performance of the TSX Small Cap will vary greatly from the Fund as its investment portfolio is primarily comprised of securities that are not included in the TSX Small Cap.
- The ICE BofAML US High Yield Index ("BAMLHY") is a USD-denominated index that tracks the performance of USD, sub-investment grade rated corporate debt. BAMLHY is a relevant index for comparison purposes as the Fund invests in corporate debt securities that are rated below investment grade. However, the Fund's investment portfolio also includes defaulted debt and equity securities which are not included in the BAMLHY and thus the Fund's performance may vary greatly from BAMLHY.
- The Credit Suisse Distressed Hedge Fund Index ("CSDHFI") is a USD-denominated index that tracks the aggregate performance of investment funds that focus on investing in companies that are subject to financial or operational distress or bankruptcy proceedings. The CSDHFI is a relevant index for comparison purposes as the Fund's investment mandate broadly overlaps that of the funds that make up the CSDHFI. However, it is likely that the composition of the Fund's investment portfolio is unique from these peers and thus the Fund's performance may vary greatly from the CSDHFI.

As the Fund makes idiosyncratic investments in securities which are overlooked by the capital markets, the Fund's investment portfolio contains investments that are not likely included in any of the above indices and thus an investment in the Fund should not be considered a substitute or proxy for the underlying index. For the reasons stated above, these indices should not be considered a benchmark for the Fund and there can be no assurance that any historical correlation or relationship will continue in the future. As the CSDHFI and BAMLHY indices are reported in USD while the Fund reports in CAD, the Investment Manager translates the CSDHFI and BAMLHY into CAD using the prevailing foreign exchange rate as of the date of each observation.



# EXHIBIT 22 TO THE CROSS- EXAMINATION OF S. REID



## **RAVENSOURCE FUND**

### **MANAGEMENT REPORT ON FINANCIAL PERFORMANCE – JUNE 30<sup>TH</sup>, 2010**

#### **MANAGEMENT REPORT OF FUND PERFORMANCE**

This document is the Management Report on Financial Performance ("MRFP") of the financial condition and results of operations for the six month period ending June 30, 2010. This MRFP should be read in conjunction with the Ravensource Fund's June 30, 2010 unaudited financial statements. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and unless otherwise noted, both the financial statements and this MRFP are expressed in Canadian Dollars.

The MRFP contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievements expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits will be derived.

#### **The Ravensource Fund**

The Ravensource Fund ("Ravensource" or "the Fund") is a closed-end mutual fund trust, the units of which trade on the TSX under the symbol **RAV.UN**. The investment objectives of the Fund are stated in detail in the notes to the financial statements and in greater detail in the Declaration of Trust. In 2003, the Fund's investment strategy was transitioned away from its roots as an income fund specializing in debt securities of issuers in Australia, New Zealand and other Asian countries and into a fund that specializes in North American high yield, distressed debt and equity securities. To reflect the change in the investment mandate, the name was changed from the First Asia Income Fund to the Ravensource Fund.

#### **Investment Manager - Stornoway Portfolio Management Inc.**

By way of a special meeting of unitholders, Stornoway Portfolio Management Inc. ("SPM") was appointed as the Investment Manager to the Ravensource Fund effective July 1, 2008. SPM's responsibilities for Ravensource include the evaluation, selection and negotiation of investments, the ongoing monitoring and evaluation of such investments and the recommendation of the appropriate timing and structure for disposition of such investments. I am the President of SPM and have over 20 years of experience in the Capital Markets researching, restructuring and investing in companies that are experiencing financial distress. Whether serving on a creditor committee, Board of Directors or in a more informal capacity, I do not shy away from rolling up my sleeves and getting actively involved in investee companies to ensure the successful completion of a corporate turnaround with the goal of ultimately realizing higher value on our investment. Currently, I sit on the Board of Directors of

SFG Inc., a private U.S. meat processing company which represents Ravensource's single largest investment.

### **Ravensource Investment Committee**

To oversee the investment management of the Fund, Pat Hodgson and I established the Ravensource Investment Committee (the "RIC"). As many will know, Pat is the President of Cinnamon Investments Limited ("Cinnamon") and managed the Ravensource Fund up until July 1, 2008. What you may not know is that Ravensource is merely the formalization of a partnership that has been many years in the making. Pat and I have been examining and capitalizing on investment opportunities together for almost a decade. Through the RIC, Pat remains actively involved in Ravensource by contributing investment ideas, providing a sounding board and imparting his years of investment experience, which adds depth, horsepower and balance to the management of the Fund. Further, Pat's strength and track record in the value side of equity investing provides a key counter-balance to my fixed income and distressed securities background. Speaking personally and professionally, I am truly honoured to be partners with Pat.

Both Pat and I firmly believe that an investment manager should have "skin in the game". Putting this concept to work, as of June 30, 2010, I owned 141,328 units of Ravensource representing approximately 9.3% of the total units outstanding which is up from the 132,878 units that I held as of December 31<sup>st</sup>, 2009. Pat – directly and through related parties – owns 565,394 units of Ravensource representing approximately 39.7% of the units of the Fund which is also an increase from the start of this year.

### **Investment Philosophy**

We are deep value investors that often find attractive investment opportunities from situations that are overlooked by traditional investors. Many of these opportunities arise from companies with warts on them:

- Debt of companies who require a financial/operational turnaround
- Income trusts who ceased / reduced their distribution
- Companies with hidden assets or overstated liabilities
- Shares of companies lacking or losing institutional research coverage

Pat and I spend a lot of time combing through analyst reports, having discussions with our various networks, and other less trodden avenues to uncover these opportunities. However, investment analysis and identification of opportunities is not sufficient to generate investment returns. To realize value from these opportunities, we believe we bring the following attributes to Ravensource's investors:

- ability to see beyond current corporate/financial challenges;
- patience and an investment horizon long enough for the markets to recognize the intrinsic value that we did at time of investment;
- businessman's ability to assess viability of an operational turnaround;
- recognition of catalysts to unlock value; and



- willingness to become actively involved to protect / increase the value of our investments.

The underlying margin of safety has always been considered before making an investment. This is an ephemeral concept that can include hidden asset values in companies losing money, excess cash, strong market positions combined with excess debt or some combination of ugliness and attraction. We don't like the catastrophic percentage losses which happened on several positions during the recent turmoil and are looking for wider margins of safety—a free umbrella for a rainy day with the wind blowing. Many of our investment positions had temporary large losses during 2008 and have since recovered because they indeed had wide margins of safety. That is not to say that Ravensource is immune to the ravages of another financial melt-down – no, it is likely that our net asset value will fall in value if we experience another freezing of credit as in 2008. However, we do believe we have a larger and more protective air-bag in case of another crash.

## Semi-Annual Results of Operations

### Investment Performance

We are pleased to report that net asset value of Ravensource Fund increased by 14.6% before distributions but after all fees and expenses over the first six months of 2010. In total, net assets increased by \$1,661,859 / \$1.17 per unit prior to factoring in the \$0.09 per unit distribution that was paid to unitholders in June 2010. While as of June 30<sup>th</sup>, we had yet to earn back the losses experienced in 2008, we did make significant inroads to growing its net asset value per unit back up to its year-end high value of \$9.46 that was set in December 2007.

	2010 <sup>1</sup>	2009	2008	2007	2006
Investment Income	266,486	517,961	580,271	409,336	224,271
Net Investment Income (Loss)	130,863	297,228	359,115	(12,436)	(278,975)
Net Realized and Unrealized Gain (Loss) on Investments	1,530,996	3,340,672	-5,686,696	1,056,793	1,844,190
Total Increase (Decrease) from Operations	1,661,859	3,637,900	-5,327,581	1,044,357	1,565,215
Total Increase (Decrease) from Operations per unit	1.17	2.54	(3.72)	0.68	0.97
Total Assets	12,975,300	11,451,375	8,070,479	13,747,298	14,491,923
Net Asset Value per unit	9.08	8.01	5.63	9.46	8.99
Cash Distribution per unit	0.09	0.18	0.09	0.17	0.14
Total Return for period <sup>2</sup>	14.6%	45.4%	-39.5%	7.1%	12.3%
(1) Results for 2010 represent the year to date up to June 30, 2010. All other periods are full year results to December 31st.					
(2) Total Return = ( Increase in NAV per unit + Distribution ) / Prior period ending NAV per unit					

We have achieved these results amidst a rather challenging marketplace as evidenced by the 2.6% decline in S&P TSX Composite Total Return Index over the first half of 2010. What has driven Ravensource's results? I think it is fair to say that much of our returns have stemmed from long-held positions that typify our investment style: patient investing in opportunities that other investors neglect for one reason or another. We tend to hold positions until there is a catalyst event that allows us to realize what we identify as full value. However, this takes time and we

have to accept the ups and down along the way that happen in real businesses. This requires conviction to hold and perhaps even increase our investment when the markets do not agree with us but also the humility to realize that we are sometimes wrong and dispose of the positions that did not live up to our expectations. And in the first half of 2010, we were right more than we were wrong, and our, or rather your patience and fortitude were rewarded.

The specific investments that have significantly contributed – both positively and negatively - to Ravensource's 2010 performance are found in the table below:

<b>Investment</b>	<b>% of Net Income <sup>1</sup></b>	<b>Effect on NAV per unit <sup>2</sup></b>
Crystallex	41.8%	\$0.49
Westaim Corp.	21.8%	\$0.25
Solutia Inc.	11.5%	\$0.13
Brick Group Income Fund	9.3%	\$0.11
Data Group Income Fund	8.1%	\$0.09
PlazaCorp Retail Properties Ltd.	7.2%	\$0.08
Village Farms Income Fund	6.0%	\$0.07
McGraw-Hill Ryerson Ltd.	4.9%	\$0.06
Specialty Foods Group Bonds	4.4%	\$0.05
Ace Aviation Holdings Inc.	3.9%	\$0.05
March Networks Corporation	-4.3%	-\$0.05
Aecon Group Inc.	-4.8%	-\$0.06
Cinram	-9.8%	-\$0.11

<sup>1</sup> Total income on the investment as a percentage of net income for the six month period ending June 30, 2010

<sup>2</sup> Total income on the investment per Ravensource unit for the six month period ending June 30, 2010

I would like to take you through our top 3 performers along with the position that hurt us most.

### *Crystallex*

First of all: No, Pat and I have not partnered up with Hugo Chavez to exploit a gold mine in Venezuela. However, we do own Crystallex' senior bonds which pay a 9.375% coupon for which we paid \$47 on average. Shunned by the market – like many of our investments - Crystallex's bonds fell to a deep discount to par in the all too well documented drama that has plagued this company over the past 5 years. The margin of safety provided by the sole claim on Crystallex' tangible assets (cash + mining equipment stored in the port of Houston) all held outside of Venezuela gave us great comfort while the political storm raged. Regardless of whether Crystallex could actually develop the mine, extract profits from the operation and keep it away from Chavez' expropriating hands, we believed the recovery value on the bonds would exceed our cost. In December 2009, the drama escalated and Crystallex's bonds fell to a low of \$30 - at which point we said, thank you sir, may we have another and bought more bonds in the open market.

The value of Crystallex bonds has increased tremendously over the course of 2010 following its agreement with the China Railway Resources Group to fund and develop the Las Cristinas property. Allying with a partner with considerable influence over Chavez has greatly increased

the chances that Crystallex will be able to extract value from its Venezuelan asset. This agreement allowed the company to raise \$35 million in equity in June 30, further increasing the margin of safety on our investment and driving the price on our bonds to over \$75. Even at these elevated prices, we believe Crystallex bonds continue to be a very compelling investment as we anticipate their redemption at a slight premium to par / \$102 - likely by the end of 2010 - if and when the China Railway Resources Group deal closes. Yes, there is risk that this deal does not close and the bonds fall back down in price, but we like our odds and have come to love the drama – well, at least the kind of drama that offers up the opportunity to buy bonds at \$30.

### *Westaim*

The company first hit our radar screen in 2008 when they announced that they were abandoning their attempt to make the next generation of TV sets in Canada. Westaim was a former high-tech darling that had a dream to make a better TV but never had enough capital to turn this dream into reality in this competitive global business. While they had some good ideas, their technology was never commercially proven and their intellectual property was sold for a song. Compounding its misfortune, what cash the company did have was tied up in noxious asset backed commercial paper and in 2008, holding “Triple A” ABCP was not a good thing. Notwithstanding its history, we saw beyond its problems and focused on the Westaim’s valuation: a 50% discount to its non-ABCP liquid assets, after factoring in environmental liabilities. Adding to our margin of safety, we came to realize that while the environmental exposure was accurate in terms of its accounting treatment, it was a liability that was unlikely to cost the company money.

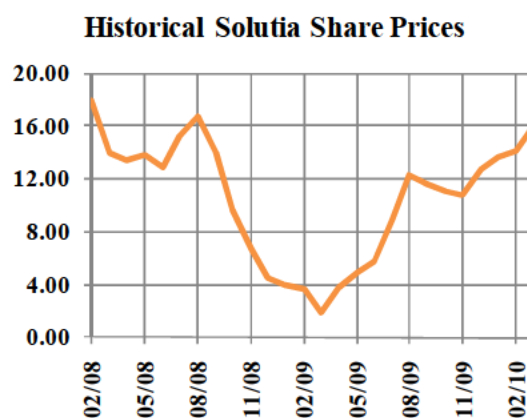
However, like most of our investments, the process to a good outcome was not a straight line. Some shareholders hoped that Westaim could live again as a tech company. The board attempted to merge with a group of Alberta residential contractors at an untimely moment. But in the end, Westaim was recapitalized and became a subprime auto and motor-cycle insurer. In the ecstasy that followed the announcement of the recapitalization, we sold our original position and crystallized the near tripling of our initial investment. Believing in the “new” Westaim, we participated in the recapitalization at a lower price than our sale price and at a lower capital commitment. Time will tell if the “new” Westaim will deliver similar lucrative investment results for Ravensource that the “old” Westaim did.

### *Solutia*

When we invested in Solutia in February 2008, the company - a chemicals manufacturer based in St. Louis - was about to exit from bankruptcy protection. Solutia entered Chapter 11 after losing its competition with the giants of the chemicals industry: Solutia lacked a competitive advantage, carried too much debt, and had overwhelming pension and labour costs. In short, the company had to undergo a drastic transformation if it was going to continue to exist let alone be a profitable going concern company. After meeting with Solutia’s senior management and doing our typical financial analysis, we determined that the turnaround plan was not only viable but more importantly likely to unlock substantial value for its shareholders. As the market heavily discounted the ability of Solutia to deliver on its plan, Solutia’s share price reflected an appetizing combination of low earnings expectations and a low earnings multiple relative to similar chemical companies. We invested to capture this double-discount.

By all measures except share price, Solutia's turnaround plan was a resounding success. The company not only increased profits, but it did so while gaining market share and de-risking its operations and balance sheet. However, the headwinds faced by its customers in the Auto and Construction industries and the collapse in the capital markets dragged down Solutia's share price soon after we purchased it. In the depths of credit crisis, Solutia's share price fell to a low of \$1 in March 2009 prompting a gut-check for Ravensource's Investment Committee. We were either very wrong in our analysis or this represented a tremendous buying opportunity. I do not know how many times I re-checked our analysis nor the amount of time spent discussing it amongst ourselves and other investors we respect. In the end, we increased our stake in Solutia's shares by a factor of 4 and drove down our average cost to \$5.61 in the process.

After our second round of purchases, the company continued to deliver superior profitability to a level that the market couldn't ignore and responded with a strong rebound in the price of the stock. By the spring of 2010, the turnaround was complete and Solutia shares no longer offered compelling value, so we sold our position in February and April 2010 at average price of just over \$16. While there is no doubt it was not an investment for the faint of heart and made us question our thesis several times over the life of our investment, Solutia's share price's remarkable recovery contributed significantly to our 2010 performance.



#### *Cinram*

Our 2010 results to date have been hurt by our investment in Cinram units. In total, it knocked about \$0.11 cents off Ravensource's net asset value. While we accept we will not always get it right and we acknowledge that investing involves risk, we hate taking losses and Cinram has been a big one.

So what happened? Subsequent to year end, Cinram announced that Warner Home Video had exercised its option to terminate its service agreements effective July 31st, 2010. With Warner representing 28% of Cinram's consolidated revenue; the market reaction was swift and harsh, erasing 60% of the market value of the units in one trading session.

The Warner announcement knocked the polish off what was otherwise a fantastic year for Cinram. Utilizing free cash flow from operations and the working capital released from re-negotiating the terms it offers to its customers, Cinram reduced its net debt by \$300 million over the course of the year. Impressively, more than half of the debt reduction was achieved through re-purchases of loans at 76.5 cents on the dollar. That is good business for the shareholders of a levered company. Further, despite popular perception that the DVD business is dead, Cinram replicated 426.7 million DVDs during the 4th quarter of 2009, less than

a 2% decline versus Q4 2008. On the earnings front, despite the lack of rebound in its Video Game division, the company generated \$181 million in EBITDA during 2009.

There is no question that the loss of the Warner contract is a major blow for the company and more importantly, for Ravensource unitholders. However, we believe that the current market value is discounting a doomsday scenario for Cinram shareholders. After reviewing the results for the quarter and considering the implications of the loss of Warner contract, we have maintained our investment. However, unlike the tactics we employed when Solutia fell in price, we have not added to our position given the lack of clarity facing the company.

### Expenses

Expenses of the Fund are currently running at approximately 2.14% of NAV - aka the Management Expense Ratio or "MER" - on an annualized basis, roughly in line with prior periods. As some of the costs are fixed in nature, there has been a slight decrease in our MER given the Fund has grown over the past year and a half. The marked decrease in expenses relative to pre-2008 levels is largely due to the fact that the Fund is not incurring performance fees and won't until the net asset value exceeds the high water mark. During the first half of 2010, SPM was paid a total of \$72,795.97 in management and administrative fees.

### Liquidity and Investment Activity

We traded actively during the first half of the year as evidenced by the increase in our Portfolio Turnover Ratio from 28.5% in 2008 to 43.6% for the first half of 2010. This was a function of making 10 new investments along with a large amount of divestitures: some due to profit taking, others in recognition that we had got it wrong, and more still from the recent frantic pace of mergers and acquisitions in the oil patch. Yes, we were busy. Despite the bump up in our investment activities, I doubt very much that Pat and I will ever be confused with day traders. Our investment style and philosophy remains intact: investing in under-followed securities that require time and patience to be rewarded. As such, it is unlikely that we will ever have a high turnover ratio relative to other investment funds.

	Amount	per Unit
<i>Sources</i>		
Net Investment Income	130,863	0.0919
Investment divestitures	2,472,923	1.7366
Total	2,603,786	1.8285
<i>Uses</i>		
Distributions to Unitholders	128,161	0.0900
Investment purchases	2,807,349	1.9714
Other	10,671	0.0075
Total	2,946,181	2.0614
Change in Net Cash	-342,395	-0.2404

Since December, we established positions in the shares of Canaccord Financial (TSX: CF ), Coalcorp Mining (TSX: CCJ), Iteration Energy (TSX: ITR), March Networks (TSX: MN), Peer 1 Network Enterprises (TSX: PIX), Supremex Income Fund (TSX: SXP.UN) Trilogy Energy Corp (TSX: TET),

Tuscany International Drilling (TSX: TID), in the bonds and warrants of Mega Brands (TSX: MB), and in the preferred shares of World Color Press (TSX:WC) which are now shares of Quad Graphics (NYSE: QUAD). Further, we increased our positions in the bonds of Newport Partners Income Fund and the shares of Seaco Ltd (OTC: SEAOF). In total, we made investments representing approximately 25% of net assets. We have not changed our style and new positions are still made in the range of 2.5% - 5% of net assets at cost: we just made a lot more of them this period.

The Fund exited its positions in First Metals shares (TSX: FMA), HSE Integrated shares (TSX: HSL), and Solutia shares (NYSE: SOA). Solutia hit our price targets and we took profits. We sold the First Metals shares that we received in the restructuring of the company in the Fall of 2009, but retain holding our small position in First Metals secured bonds. The sale of our shares in HSE reflects our recognition that while this company may continue to muddle along, this is a failed investment that no longer merits our capital. Further, we elected to take some money off the table by reducing our holdings in Aecon (TSX: ARE), Data Group Income Fund (TSX: DGI.UN), Marsulex (TSX: MLX), PlazaCorp (TSX: PLZ), and Westaim (TSX: WED).

In total, our investments exceeded our divestitures resulting in a decline in our net cash / liquidity both by absolute terms and as a percentage of net assets. As of June 30, 2010, we held approximately 10.3% of Ravensource's net assets in cash, net of accruals and current liabilities.

### Industry Concentration

While Ravensource is not an investment fund that specializes in specific industries, as a result of our experience and investment philosophy, we tend to focus on investing in companies with hard assets. At the risk of being called old fashioned, the portfolio has little exposure to Technology, Pharmaceutical and other companies whose primary assets are work-in-progress and thus like buying a car with no steering or brakes. We like to invest in companies in which we understand the products/services they offer and more importantly have a strong grasp of the business model and its tangible asset value. Further, we have consciously lowered our exposure to the more sensitive sectors of the economy. For example, our largest single investment, SFG, produces hot dogs! With that said, Ravensource is quite diversified across various industry groups.

	<b>Fair Value</b>	<b>% of Net Assets</b>
Food Products	1,858,768	14.4%
Metals & Mining	1,555,039	12.0%
Media & Publishing	1,524,548	11.8%
Energy	1,332,068	10.3%
Industrial	1,005,135	7.8%
Retail	997,648	7.7%
Real Estate	855,714	6.6%
Manufacturing	743,049	5.7%
Financial	707,064	5.5%
Technology	577,538	4.5%
Transportation	241,800	1.9%
Construction	176,462	1.4%
Automotive	22,273	0.2%
Chemicals	6,979	0.1%
<b>Total</b>	<b>11,604,085</b>	<b>89.7%</b>

### Diversification

As we believe that the most effective method to reduce/manage risk is to know your investments inside and out, Ravensource may be a more concentrated portfolio than other

investment funds. However, the Fund currently does not have one investment that exceeds 10% of net assets and only 3 of our investments exceed 5% of Net Assets. We generally limit our exposure to between 2.5% to 5% of Net Assets when making a new investment depending on its relative attractiveness, liquidity and the degree of risk/margin of safety.

### **Distributions**

The Ravensource Fund has maintained its distribution policy and made a semi-annual \$0.09 per unit distribution on June 30<sup>th</sup>, 2010. At current market prices, the units have an annualized yield of approximately 2% and we distributed approximately 8% of the total returns earned during the first half of 2010. We do not envision a change in the policy in the near future.

### **Concluding Remarks**

Ravensource's portfolio has continued to gain since June 30<sup>th</sup>, 2010. Using closing prices as of August 26<sup>th</sup>, 2010, Ravensource's net asset value has increased to \$9.59, up 5.51% from its June 30<sup>th</sup> level, bringing the year-to-date total return to 20.82%. Our investments in UTS Energy, ACE Aviations, March Networks, SeaCo Ltd, Peer 1 Networks, Trilogy Energy, and Winpak have all contributed significantly to the rise in the Fund's NAV. In fact, the only position that has experienced a significant mark-to-market loss from June 30<sup>th</sup> levels is our investment in Manulife shares. With the rise in price of some of our securities, we have taken some profits and our cash position has increased to 14% of net assets.

Despite recent investment gains, we firmly believe that our existing portfolio continues to offer compelling value. While Pat and I are cautious about capital markets in general, we believe we will continue to see attractive investment opportunities in both good times and in bad. Yes, the landscape may look troubling, but I can assure you, the lessons learned during the financial collapse of 2008 have not left us and we will continue to emphasize an investment's margin of safety before we commit your capital.

On a personal note, I have continued to add to my Ravensource Fund holdings since the June 30<sup>th</sup>, 2010 date of the financial statements. As of August 30<sup>th</sup>, 2010, I own 154,028 units which represent approximately 10.8% of the total Ravensource Fund units that are outstanding.

I look forward to hearing via phone or e-mail from unitholders. Any ideas that the Fund should consider or any opinions on existing positions are also most welcome. I also encourage any feedback on how investee companies treat their customers, employees, communities and the environment.

We are appreciative of your partnership, trust and patience.



August 30, 2010

Scott Reid, President  
Stornoway Portfolio Management Inc.  
Manager of the Ravensource Fund

## Financial Highlights

The following tables show selected key financial information and are intended to help you understand the Fund's financial performance for the past five years. This information is derived from the Fund's audited annual and unaudited interim financial statements. This Management Report of Fund Performance contains financial highlights but is not the complete annual Financial Statements of the fund. Please see the last page for information about how you can obtain the Fund's annual or interim financial statements.

<b>Ratios and Supplemental Data</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Total net asset value (000's) <sup>(1)</sup>	\$12,936	\$11,402	\$8,021	\$13,556	\$14,207
Number of units outstanding <sup>(1)</sup>	1,424,016	1,424,016	1,424,016	1,433,343	1,579,904
Management expense ratio <sup>(2)</sup>	2.23%	2.27%	2.05%	3.04%	3.94%
Management expense ratio before waivers or absorptions	2.23%	2.27%	2.05%	3.04%	3.94%
Trading expense ratio <sup>(3)</sup>	0.40%	0.17%	0.20%	0.19%	0.17%
Portfolio turnover rate <sup>(4)</sup>	43.62%	32.57%	28.45%	65.43%	59.32%
Net asset value per unit	\$9.08	\$8.01	\$5.63	\$9.46	\$8.99
Closing market price	\$9.00	\$7.05	\$5.00	\$9.20	\$8.45

(1) This information is provided as at December 31 of the year shown except for 2010 which is as of June 30, 2010

(2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. An increase in the portfolio turnover rate may increase the Fund's trading costs. There is not necessarily a relationship between the turnover rate and the performance of the fund.

<b>The Fund's Net Assets per Unit (\$) <sup>(1)</sup></b>	<b>2010 <sup>4</sup></b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Net Assets, beginning of year</b>	8.01	5.63	9.46	8.99	8.24
<b>Increase (decrease) from operations:</b>					
Total revenue	0.19	0.36	0.41	0.27	0.14
Total expenses	0.10	0.16	0.15	0.28	0.31
Realized gains (losses) for the period	0.81	0.20	0.08	1.38	0.67
Unrealized gains (losses) for the period	0.26	2.14	(4.06)	(0.69)	0.48
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	1.17	2.55	(3.72)	0.68	0.97
<b>Distributions:</b>					
From income (excluding dividends)	-	-	-	-	-
From dividends	0.015	0.03	-	-	-
From capital gains	-	-	-	-	-
Return of capital	0.075	0.15	0.09	0.17	0.14
<b>Total Distributions <sup>(3)</sup></b>	0.09	0.18	0.09	0.17	0.14
<b>Net assets, End of Period</b>	9.08	8.01	5.63	9.46	8.99

(1) The net assets per security presented in the above table differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

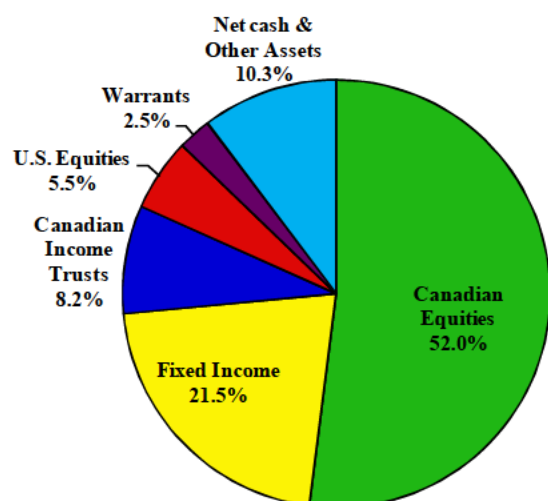
(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

(3) Distributions were paid in cash. For 2010, the allocation between income, dividend capital gains, and return of capital is an estimate.

(4) This information is provided as at December 31 of the year shown except for 2010 which is as of June 30, 2010



## SUMMARY OF INVESTMENT PORTFOLIO



## Top 25 Holdings as of June 30, 2010

Issuer/Security	Security Type	% of Net Assets
Net Cash *	Cash	10.30%
Specialty Foods Group - 8% due Dec 2011 **	Convertible Bonds	8.61%
Crystallex International - 9.375% due Dec 2011	Senior Bonds	7.84%
PlazaCorp Retail Properties Ltd	Common Shares	6.61%
Swiss Water Income Fund	Income Trust Units	3.68%
UTS Energy Services Ltd	Common Shares	3.57%
Winpak Ltd.	Common Shares	3.13%
Indigo Books & Music Inc.	Common Shares	3.05%
McGraw-Hill Ryerson Ltd.	Common Shares	2.98%
Newport Partners Income Fund 7% due Dec 2012	Convertible Bonds	2.98%
World Color Press	Preferred Shares	2.81%
SeaCo Ltd.	Common Shares	2.69%
Marsulex Inc.	Common Shares	2.51%
Trilogy Energy Corporation	Common Shares	2.50%
Glacier Media Inc	Common Shares	2.48%
Canwel Holdings Corporation	Common Shares	2.41%
Manulife Financial Corporation	Common Shares	2.39%
March Networks Corporation	Common Shares	2.28%
Westaim Corp.	Common Shares	2.28%
Brick Group Warrants	Warrants	2.26%
Peer 1 Network Enterprises Inc	Common Shares	2.18%
Village Farms Income Fund	Income Trust Units	2.08%
Data Group Income Fund	Income Trust Units	2.04%
Sceptre Investment Counsel	Common Shares	2.04%
Ace Aviation Holdings Inc.	Common Shares	1.87%
<b>Total % of Net Assets</b>		<b>87.57%</b>

\* Includes interest and dividends receivables, and is net of all liabilities

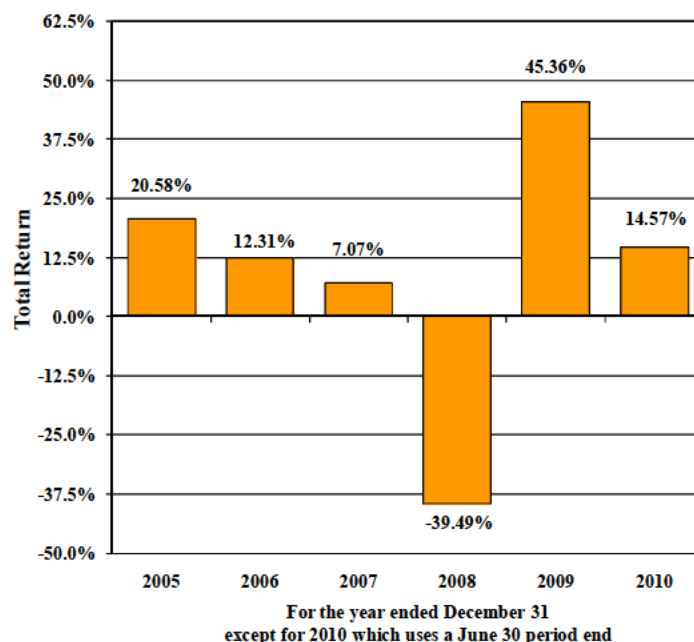
\*\* Not publicly traded company. Valued by independent valuation

This summary will change due to ongoing portfolio transactions and fluctuations. The top 25 holdings are made available quarterly, 60 days after quarter end.

## Past Performance

The charts and tables that follow show the past performance of the Fund but will not necessarily indicate how the Fund will perform in the future. Mutual fund values change frequently and past performance may not be repeated.

The bar chart shows the Fund's annual performance in each of the past 5 years to December 31<sup>st</sup> except for fiscal 2010 which is measured as of June 30, 2010. The chart shows in percentage terms how the net asset value has increased (decreased) during each period.



Total Returns <sup>1</sup>				
	Six Month <sup>2</sup>	One Year <sup>2</sup>	Three Year <sup>2</sup>	Five Year <sup>2</sup>
RAV.UN	14.57%	56.35%	-1.66%	5.65%
S&P/TSX Total Return Index	-2.55%	11.95%	-3.88%	5.45%

<sup>1</sup> Annualized returns except for the six months ending June 30, 2010.

<sup>2</sup> Assuming June 30th end date for each period

## Additional Information

### RavenSource Independent Review Committee (“IRC”)

To adhere to National Instrument 81-107 and to provide an arms-length vehicle to deal with matters that involve potential conflicts of interest between the Fund and the Manager, RavenSource established and maintains an Independent Review Committee (“IRC”). The role, composition and responsibilities of the IRC can be summarized as follows:

- size of the IRC is 3 members that are independent from the Manager with no material relationships to the Manager;
- its mandate is to consider and provide impartial judgment on any conflict of interest referred to it by the Manager;
- when a conflict of interest arises, the IRC will review and recommend to the Manager what action it should take to achieve a fair and reasonable result for RavenSource;
- report to the relevant securities regulators any instance where the Manager acted in a conflict of interest matter in such a way that did not comply with conditions imposed by securities legislation or the IRC;
- meet at least annually with at least one of the meetings to be held “in camera”;
- for each calendar year, the IRC must prepare a report to the RavenSource Fund that describes the IRC and its activities for the fiscal year. This report is posted on the Fund’s website @ [www.ravenSource.ca](http://www.ravenSource.ca)

The IRC is comprised of Michael Siskind (Chairman), David Magahey, and Michael Gardiner.

## Access to Information

We continue to meet the requirements of National Instrument 81-106 and publish our 25 largest holdings quarterly and net asset value weekly. All of the key Fund documents along with further information on the Fund and the investment team that manages your investments can be accessed through our website ([www.ravenSource.ca](http://www.ravenSource.ca)). We are committed to keeping the website current and I encourage you to make use of this resource tool. In addition, we are likely to expand our current reporting to include periodic postings on subjects that may be of interest to unitholders expressed in a less formal manner than is appropriate for this document. Over time we have been mandated to tell you so much in the management discussion and analysis that your patience might be tested by greater length to cover discretionary subjects. Aside from the website, Fund documents can also be retrieved through SEDAR ([www.sedar.com](http://www.sedar.com)).

## Fund Information

### Trustee, Registrar and Transfer Agent

Computershare Trust Co. of Canada

### Investment Manager

Stornoway Portfolio Management Inc.  
30 St. Clair Avenue West  
Suite 901  
Toronto, ON M4V 3A1

### Auditor

Deloitte & Touche LLP

### Investor Relations

Scott Reid  
416-250-2845  
[sreid@stornowayportfolio.com](mailto:sreid@stornowayportfolio.com)

# IDENTIFICATION A TO THE CROSS- EXAMINATION OF S. REID



## DISTRESSED / EVENT DRIVEN

The Greywolf Distressed Fund looks to exploit investment opportunities in discounted securities of distressed issuers across a range of public and private asset classes. The investment team uses its extensive market experience and access to source investment ideas internally and construct portfolios substantially differentiated from those of other distressed investors. Greywolf's disciplined approach to fundamental due diligence uncovers attractively priced distressed opportunities with positive asymmetric risk profiles. Greywolf is an active investor, regularly participating in bankruptcy processes and directing restructuring strategies at the board level.

The Greywolf Event Driven strategy has approximately \$480 million in assets allocated across approximately 10 to 20 of our best ideas. We believe our event-driven approach has low overlap with other funds and little to no correlation to the broad based markets. We seek to generate returns through well-researched catalyst-driven ideas, and when necessary we will hedge unwanted/uncompensated industry or market specific risks.



The background of the page features a large, vertical image of a construction site at sunset or sunrise. The sky is a mix of orange, yellow, and blue. In the foreground, the silhouettes of three construction workers wearing hard hats are visible, standing on a metal structure. Above them, a large, dark, rectangular object, possibly a piece of machinery or a container, is suspended by a crane. The overall mood is industrial and professional.

## CLO CREDIT / STRUCTURED PRODUCTS

Greywolf manages several CLO vehicles that invest primarily in portfolios of leveraged loans and high-yield bonds. Greywolf also manages a Corporate CLO focused strategy that invests in third party CLO debt and equity, along with numerous client specific CLO focused vehicles. By integrating our research analysts on the Event Driven team into the CLO process, we believe we are able to gain a competitive advantage in identifying CLO debt and equity positions with superior credit quality. We are dedicated to customizing the appropriate solution for our investors through separate accounts or a fund of one.



## HARD ASSETS

Greywolf's hard asset strategies were established to exploit non-correlated, niche investment opportunities resulting from financial stress in the markets for hard assets. These strategies are an outgrowth of the firm's distressed investing experience where over the years we have regularly surfaced opportunities to directly acquire real assets on highly favorable terms. Today, our hard asset strategy is focused on niche opportunities to invest in cash flowing real assets.



## HARD ASSETS

Greywolf's hard asset strategies were established to exploit non-correlated, niche investment opportunities resulting from financial stress in the markets for hard assets. These strategies are an outgrowth of the firm's distressed investing experience where over the years we have regularly surfaced opportunities to directly acquire real assets on highly favorable terms. Today, our hard asset strategy is focused on niche opportunities to invest in cash flowing real assets.



# IDENTIFICATION B TO THE CROSS- EXAMINATION OF S. REID



# GOLD RESERVE INC.

999 W. Riverside Ave., Suite 401,  
Spokane, WA 99201

## NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual general and special meeting (the “**Meeting**”) of the holders (the “**Shareholders**”) of Class A common shares (the “**Class A Shares**”) of GOLD RESERVE INC. (the “**Company**”) will be held at 999 W. Riverside Avenue, 7<sup>th</sup> Floor, Masthead Suite, Spokane, Washington, USA on September 10, 2020 at 9:30 a.m. (Pacific daylight time) for the following purposes:

- (1) to elect directors of the Company to hold such positions until the next annual meeting of Shareholders or until their successors are elected and have qualified;
- (2) to appoint PricewaterhouseCoopers LLP as auditors of the Company and to authorize the directors of the Company to fix their remuneration;
- (3) to approve the re-pricing of certain outstanding stock options granted to insiders of the Company necessitated by the Company’s 2019 return of capital transaction;
- (4) to receive the financial statements of the Company for the year ended December 31, 2019, together with the report of the auditors thereon; and
- (5) to conduct any other business as may properly come before the meeting or any adjournment or postponement thereof.

Registered Shareholders who are unable to attend the Meeting or any adjournment or postponement thereof in person and who wish to ensure that their Class A Shares will be voted are requested to complete, sign and mail the enclosed form of proxy to Proxy Services, c/o Computershare Investor Services, P.O. Box 505008, Louisville, KY 40233. Proxies must be received not later than 48 hours preceding the Meeting or any adjournment or postponement thereof. A form of proxy, proxy statement/information circular, supplemental mailing list return card and a copy of the Company’s 2019 Annual Report (the “**2019 Annual Report**”) accompany this Notice of Annual General and Special Meeting of Shareholders.

Non-registered Shareholders (for example, those Shareholders who hold Class A Shares in an account with an intermediary), should follow the voting procedures described in the voting instruction form provided by such intermediary or call the intermediary for information as to how to vote their Class A Shares. For further information with respect to Shareholders who own Class A Shares through an intermediary, see “*Voting by Non-Registered Shareholders*” in the accompanying Circular.

The specific details of the matters proposed to be put before the Meeting are set forth in the accompanying Circular.

This Notice of Annual General and Special Meeting of Shareholders, the 2019 Annual Report and Supplemental Mailing List Return Card are being mailed or made available to Shareholders entitled to vote at the Meeting, on or about August 11, 2020.

The Board of Directors has fixed the close of business on July 29, 2020 as the record date for the determination of Shareholders entitled to notice of the Meeting and any adjournment or postponement thereof.

DATED this 28<sup>th</sup> day of July 2020

BY ORDER OF THE DIRECTORS

Rockne J. Timm, Chief Executive Officer

**GOLD RESERVE INC.**  
**MANAGEMENT INFORMATION CIRCULAR**

**MANAGEMENT SOLICITATION OF PROXIES**

This Management Information Circular (the “Circular”) is furnished in connection with the solicitation of proxies by or on behalf of the management of GOLD RESERVE INC. (the “Company”) to be voted at the Annual General and Special Meeting of Shareholders of the Company (the “Meeting”) to be held on, the 10<sup>th</sup> day of September, 2020 at 9:30 a.m. (Pacific daylight time), at 999 W. Riverside Avenue, 7<sup>th</sup> Floor Masthead Suite, Spokane, Washington, USA and at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual General and Special Meeting of Shareholders. The solicitation of proxies will be primarily by mail but proxies may also be solicited personally or by telephone or by other means of communication by employees of the Company on behalf of management of the Company. Employees will not receive any extra compensation for such activities. The Company may pay brokers, nominees or other persons holding Class A common shares of the Company (the “Class A Shares”) in their name for others for their reasonable charges and expenses in forwarding proxies and proxy materials to beneficial owners of such Class A Shares, and obtaining their proxies. The Company may also retain independent proxy solicitation agents to assist in the solicitation of proxies for the Meeting. The cost of solicitation by management will be borne by the Company. Except where otherwise stated, the information contained herein is given as of the 28th day of July 2020.

The Notice of Annual General and Special Meeting of Shareholders, Circular and the Company’s 2019 Annual Report (the “2019 Annual Report”) are also available for review on the Company’s website at [www.goldreserveinc.com](http://www.goldreserveinc.com) under “2020 Annual Shareholder Meeting” and under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

**CURRENCY**

Unless otherwise indicated, all currency amounts referred to herein are stated in U.S. dollars.

**APPOINTMENT AND REVOCATION OF PROXIES**

The individuals named in the enclosed form of proxy are directors and/or officers of the Company. **A Shareholder (as defined below) submitting a proxy has the right to appoint a person or company, who need not be a Shareholder, to represent the Shareholder at the Meeting other than the persons designated in the form of proxy furnished by the Company. To exercise this right, the Shareholder may either (i) insert the name of the desired representative in the blank space provided in the form of proxy attached to this Circular or (ii) submit another appropriate form of proxy permitted under applicable law.**

The completed proxy will be deemed valid when deposited at the office of Proxy Services, c/o Computershare Investor Services, P.O. Box 505008, Louisville, KY 40233 not later than 48 hours preceding the Meeting or any adjournment or postponement thereof, or with the Chairman of the Meeting immediately prior to the commencement of the Meeting or any adjournment or postponement thereof, otherwise the instrument of proxy will be invalid.

See “*Voting by Non-Registered Shareholders*” below for a discussion of how non-registered Shareholders (i.e. Shareholders that hold their Class A Shares through an account with a bank, broker or other nominee in “street name”) may appoint proxies.

You may revoke or change your proxy at any time before it is exercised at the Meeting. In the case of Shareholders appearing on the registered shareholder records of the Company, a proxy may be revoked at any time prior to its exercise by delivering a written notice of revocation or another signed proxy bearing a later date to the Secretary of the Company at its principal executive office located at 999 W. Riverside Avenue, Suite 401, Spokane, Washington 99201, USA not later than 48 hours preceding the Meeting or any adjournment or postponement thereof. You may also revoke your proxy by giving notice or by voting in person at the Meeting; your attendance at the Meeting, by itself, is not sufficient to revoke your proxy. The time limit for deposit of proxies may be waived or extended by the Chairman of the Meeting at his discretion, without notice.

Shareholders that hold their Class A Shares through an account with a bank, broker or other nominee should follow the instructions provided by their bank, broker or nominee in revoking their previously deposited proxies.

### EXERCISE OF DISCRETION BY PROXIES

**The Class A Shares represented by the proxy will be voted or withheld from voting in accordance with the instructions of the Shareholder on any ballot that may be called for and, if the Shareholder specifies a choice with respect to any matter to be acted upon, the Class A Shares will be voted accordingly. IN THE ABSENCE OF SUCH CHOICE BEING SPECIFIED, SUCH CLASS A SHARES WILL BE VOTED “FOR” THE MATTERS SPECIFICALLY IDENTIFIED IN THE NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS ACCOMPANYING THIS CIRCULAR.**

The persons named in the enclosed proxy will have discretionary authority with respect to any amendments or variations of the matters of business to be acted on at the Meeting or any other matters properly brought before the Meeting or any adjournment or postponement thereof, in each instance, to the extent permitted by law, whether or not the amendment, variation or other matter that comes before the Meeting is routine and whether or not the amendment, variation or other matter that comes before the Meeting is contested. **If any other matters are properly presented for consideration at the Meeting, or if any of the identified matters are amended or modified, the individuals named as proxies on the enclosed form of proxy will vote the Class A Shares that they represent on those matters as recommended by management. If management does not make a recommendation, then they will vote in accordance with their best judgment.** At the time of printing this Circular, the management of the Company knows of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice of Annual General and Special Meeting of Shareholders.

### VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The Company's issued and outstanding shares consist of Class A Shares. Holders of Class A Shares (the “**Shareholders**”) are entitled to one vote per share and may vote on all matters to be considered and voted upon at the Meeting or any adjournment or postponement thereof. The Company has set the close of business on July 29, 2020 (the “**Record Date**”) as the record date for the Meeting. As of the Record Date and the date of this Circular, there were 99,395,048 issued and outstanding Class A Shares.

The Company will prepare a list of Shareholders of record at such time. Shareholders will be entitled to vote the Class A Shares then registered in their name at the Meeting except to the extent that (a) the holder has transferred the ownership of any Class A Shares after that date, and (b) the transferee of those Class A Shares, in accordance with the *Business Corporations Act* (Alberta) (the “**ABCA**”), produces properly endorsed share certificates, or otherwise establishes ownership of the Class A Shares, and demands, not later than 10 days before the Meeting, that the transferee’s name be included in the list of persons entitled to vote at the Meeting, in which case the transferee will be entitled to vote the Class A Shares at the Meeting or any adjournment or postponement thereof.

To the knowledge of the directors and executive officers of the Company, as of the Record Date, the only persons, firms or corporations that beneficially owned, or exercised control or direction, directly or indirectly, over more than 10% of the voting rights attached to the Class A Shares were:

Shareholder Name	Number of Class A Shares Held	Percentage of Class A Shares Issued <sup>(1)</sup>
<b>Steelhead Partners, LLC</b>	<b>10,499,924 <sup>(2)</sup></b>	<b>10.6%</b>
<b>Greywolf Capital Management LP <sup>(3)</sup></b>	<b>26,454,256</b>	<b>26.6%</b>
Greywolf Event Driven Master Fund.	6,380,948	6.4%
Greywolf Overseas Intermediate Fund	5,434,228	5.5%
Greywolf Strategic Master Fund SPC, Ltd. – MSP9	11,771,916	11.8%
Greywolf Strategic Master Fund SPC, Ltd. – MSP5	2,867,164	2.9%

- (1) Based on the number of Class A Shares outstanding on the Record Date.
- (2) Mr. Michael Johnston, a director of the Company, is a member and portfolio manager of Steelhead Partners, LLC (“**Steelhead**”), which acts as investment manager of Steelhead Navigator Master, L.P. and another client account that together hold 10,499,924 Class A Shares. As such, Mr. Johnston may be deemed to beneficially own the shares owned by these client accounts in that he may be deemed to have the power to direct the voting or disposition of these shares. Otherwise, Mr. Johnston disclaims beneficial ownership of these securities.
- (3) The number of Class A Shares held is based on publicly available information filed with the U.S. Securities and Exchange Commission (the “**SEC**”) by Greywolf Capital Management LP (“**Greywolf**”) last filed on August 23, 2017.

A quorum for the transaction of business at any meeting of shareholders shall be at least two persons present in person, each being a shareholder entitled to vote thereat or a duly appointed proxy or representative for an absent shareholder so entitled, and representing in the aggregate not less than five percent (5%) of the outstanding shares of the Company carrying voting rights at the meeting, provided that, if there should be only one shareholder of the Company entitled to vote at any meeting of shareholders, the quorum for the transaction of business at the meeting of shareholders shall consist of the one shareholder. Except as may otherwise be stated in this Circular, the affirmative vote of a majority of the votes cast with respect to an item or proposal at the Meeting (an ordinary resolution) is required to approve all items presented in this Circular.

### VOTING BY NON-REGISTERED SHAREHOLDERS

Only registered Shareholders at the close of business on the Record Date or the persons they designate as their proxies are permitted to vote at the Meeting. In many cases, however, the Class A Shares owned by a person (a “**non-registered holder**”) are registered either: (a) in the name of an intermediary (an “**Intermediary**”) that the non-registered holder deals with in respect of the Class A Shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered registered savings plans, registered retirement income funds, registered education savings plans and similar plans); or (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant.

In accordance with the requirements of National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* of the Canadian Securities Administrators, the Company has distributed copies of this Circular and the accompanying Notice of Annual General and Special Meeting of Shareholders and form of proxy (collectively, the “**Meeting Materials**”) to the clearing agencies and Intermediaries for distribution to non-registered holders of Class A Shares.

Intermediaries are required to forward the Meeting Materials to non-registered holders unless a non-registered holder has waived the right to receive them. Intermediaries will often use service companies to forward the Meeting Materials to non-registered holders. Generally, non-registered holders who have not waived the right to receive the Meeting Materials will either:

- (a) be given a form of proxy which has already been signed by the Intermediary (typically by a facsimile stamped signature), which is restricted as to the number and class of securities beneficially owned by the non-registered holder but which is not otherwise completed. Because the Intermediary has already signed the form of proxy, this form of proxy is not required to be signed by the non-registered holder when submitting the proxy. In this case, the non-registered holder who wishes to vote by proxy should otherwise properly complete the form of proxy and deliver it as specified above under the heading “Appointment and Revocation of Proxies”; or
- (b) be given a form of proxy which is not signed by the Intermediary and which, when properly completed and signed by the non-registered holder and returned to the Intermediary or its service company, will constitute voting instructions (often called a “**Voting Instruction Form**”) which the Intermediary must follow. Typically, the non-registered holder will also be given a page of instructions which contains a removable label containing a bar code and other information. In order for the form of proxy to validly constitute a Voting Instruction Form, the non-registered holder must remove the label from the instructions and affix it to the Voting Instruction Form, properly complete and sign the Voting Instruction Form and submit it to the Intermediary or its services company in accordance with the instructions of the Intermediary or its service company.

In either case, the purpose of this procedure is to permit non-registered holders to direct the voting of the Class A Shares they beneficially own. **Should a non-registered Shareholder who receives either form of proxy wish to vote at the Meeting in person (or have another person attend and vote on behalf of the non-registered Shareholder), the non-registered Shareholder should strike out the persons named in the form of proxy and insert the non-registered Shareholder’s name, or such other person’s name, in the blank space provided. Non-registered Shareholders should carefully follow the instructions of their Intermediary, including those regarding when and where the form of proxy or Voting Instruction Form is to be delivered.**

A non-registered Shareholder may revoke a form of proxy or Voting Instruction Form given to an Intermediary by contacting the Intermediary through which the non-registered Shareholder’s Class A Shares are held and following the instructions of the Intermediary respecting the revocation of proxies. In order to ensure that an Intermediary acts upon a revocation of a proxy form or Voting Instruction Form, the written notice should be received by the Intermediary well in advance of the Meeting.

Under applicable Canadian securities laws, non-registered shareholders or “beneficial” shareholders are either “objecting beneficial owners” or “OBOs”, who object to the disclosure by Intermediaries of information about their ownership in the Company, or “non-objecting beneficial owners” or “NOBOs”, who do not object to such disclosure. The Company is not sending the Meeting Materials (including any request for voting instructions made by an Intermediary) directly to NOBOs and does not intend to pay for proximate intermediaries to send such materials to OBOs. Accordingly, OBOs will not receive the Meeting Materials unless the Intermediary assumes the costs of delivery.

## BUSINESS OF THE MEETING

### Item 1 – Election of Directors

The articles of the Company provide that the Board of Directors (the “**Board**”) shall consist of a minimum of three and a maximum of 15 directors, with the actual number of directors to be determined from time to time by the Board. The Board presently consists of seven members and Shareholders are being asked to elect seven members to the Board.

The Board has held seven meetings since the beginning of the most recently completed financial year, all of which were attended in person or by phone by all directors.

The by-laws of the Company provide that each director shall be elected to hold office until the next annual meeting of the Company’s Shareholders or until their qualified successors are elected. All of the current directors’ terms expire on the date of the Meeting and it is proposed by management that all but one of them be re-elected to serve until the next annual meeting of Shareholders, or until their qualified successors are elected, unless they resign or are removed from the Board in accordance with the by-laws of the Company.

The following table and the notes thereto state the name and residence of all of the persons proposed to be nominated by management for election as directors, their principal occupations, the period or periods of service as directors of the Company, the approximate number of Class A Shares beneficially owned, controlled or directed, directly or indirectly, by each of them as at the date hereof and the committees of the Board of which they are a member.

Shareholders can vote for all of the directors, vote for some of them and withhold votes for others, or withhold votes for all of them.

**Management recommends that you vote FOR the election of each of the directors below.**

<b>Name and Place of Residence</b>	<b>Principal Occupation</b>	<b>Director of Gold Reserve Inc. since</b>	<b>Shares Beneficially Owned or Controlled</b>	<b>Member of Committee</b>
James H. Coleman, Q.C. Calgary, Alberta, Canada	Mr. Coleman has been the Executive Chairman of the Company since 2016 and prior thereto was the non-Executive Chairman since 2004. He has also been a director of the Company and its predecessor Gold Reserve Corporation since 1994. Mr. Coleman was also previously a senior partner with the law firm of Norton Rose Fulbright Canada LLP. He has extensive international industry and public company experience as a result of his membership on the Board for over 25 years and has served on the board of directors of other mining issuers such as Amex Exploration Inc., Avion Gold Corporation and Endeavour Mining Corporation. He has also been a director of Siembra Minera since 2016, Great Basin Energies Inc. since 1996, and MGC Ventures, Inc. since 1997.	1994	783,138	Executive Committee  Legal Committee  Nominating Committee (Chair)  Barbados Committee  Special Committee

Name and Place of Residence	Principal Occupation	Director of Gold Reserve Inc. since	Shares Beneficially Owned or Controlled	Member of Committee
Rockne J. Timm Spokane, Washington, USA	Mr. Timm has been a director of the Company for over 30 years and the Chief Executive Officer of the Company and its predecessor Gold Reserve Corporation for 30 years. Prior to his involvement with the Company, he was the Chief Financial Officer and Vice President of Finance of a mining company with six producing gold mines. Mr. Timm is also the President and director of Gold Reserve Corporation, Chief Executive Officer of GR Mining (Barbados) Inc. and GR Procurement (Barbados) Inc. since 2016. Mr. Timm has also been a director of Siembra Minera since 2016. In addition, Mr. Timm has been a president and director of Great Basin Energies, Inc. since 1981, and MGC Ventures, Inc. since 1989.	1984	1,530,040	Executive Committee (Chair)  Legal Committee
A. Douglas Belanger Spokane, Washington, USA	Mr. Belanger is a geologist with significant industry experience who has been a director of the Company for over 30 years and the president of the Company for 15 years. Mr. Belanger also served as executive vice president from 1988 through 2004. He is also the executive vice president and director of Gold Reserve Corporation since 1988, a director of Siembra Minera, director and president of GR Mining (Barbados) Inc. and GR Procurement (Barbados) Inc. since 2016, and GR Mining Group (Barbados) Inc. since 2018. He has been executive vice president and director of Great Basin Energies Inc. since 1984, and MGC Ventures, Inc. since 1997.	1988	1,700,940	Executive Committee  Mining Committee  Financial Markets Committee  Barbados Committee (Chair)

Name and Place of Residence	Principal Occupation	Director of Gold Reserve Inc. since	Shares Beneficially Owned or Controlled	Member of Committee
James P. Geyer Spokane, Washington USA	Mr. Geyer, who has a Bachelor of Science in Mining Engineering, has been a director of the Company for 23 years and has significant operating and mine project experience in gold and copper operations around the world, as well as public company experience resulting from his roles with the Company, Wheaton River Minerals Ltd., USMX Inc., Thompson Creek Metals Company Inc. ("Thompson Creek") (during which time Thompson Creek constructed and commissioned the Mount Milligan Mine) and Stonegate Agricom Ltd. Prior to the expropriation of the Brisas Project by Venezuela, Mr. Geyer was previously the Senior Vice President of the Company responsible for the development of the Brisas Project. Mr. Geyer also led the analysis on behalf of the Company of the Brisas Cristinas Project (now known as the Siembra Minera Project). Mr. Geyer has considerable knowledge of and experience with mining regulations in Venezuela.	1997	407,473	Audit Committee  Compensation Committee  Mining Committee (Chair)
Robert A. Cohen Becket. Massachusetts USA	Mr. Cohen retired as of October 1, 2016 from his position as a litigation partner in the international law firm Dechert LLP, and its predecessor firms, in the New York office.	2017	-	Nominating Committee  Legal Committee (Chair)
James Michael Johnston Seattle, Washington, USA	Mr. Johnston co-founded Steelhead in late 1996 to form and manage the Steelhead Navigator Fund. Prior, as senior vice president and senior portfolio manager at Loews Corporation, Mr. Johnston co-managed over \$5 billion in corporate bonds and also managed an equity portfolio. He began his investment career at Prudential Insurance as a high yield and investment-grade credit analyst. Mr. Johnston was promoted to co-portfolio manager of an \$11 billion fixed income portfolio in 1991. He graduated with honors from Texas Christian University with a degree in finance and completed his MBA at the Johnson Graduate School of Business at Cornell University.	2017	10,499,924 <sup>(1)</sup>	Audit Committee  Compensation Committee



Name and Place of Residence	Principal Occupation	Director of Gold Reserve Inc. since	Shares Beneficially Owned or Controlled	Member of Committee
Ambassador Yves Gagnon Ottawa, Ontario Canada	Former Ambassador Gagnon joined Global Affairs Canada in 1971. He retired from the public service in 2016 after 45 years of service. He has held positions of increasing importance including Canada's Ambassador to six countries including Venezuela and Cuba with a special emphasis on Latin America. He has also been a Senior Policy Advisor to Canada's Minister of State of Foreign Affairs and International Trade for the Americas. His extensive career in the Diplomatic Corps gives him a unique ability and insight into the geopolitical challenges facing the Company. Ambassador Gagnon has a BA in Arts (1968) and a B.Sc. in Political Science (1971) from Laval University and is a graduate of the National School of Administration (ENA) France (1977).	N/A	-	Special Committee (if elected)

- (1) Mr. Johnston is the managing member of Steelhead, which acts as investment manager of Steelhead Navigator Master, L.P. and another client account that together hold 10,499,924 Class A Shares. As such, Mr. Johnston may be deemed to beneficially own the shares owned by these client accounts in that he may be deemed to have the power to direct the voting or disposition of these shares. Otherwise, Mr. Johnston disclaims beneficial ownership of these securities.

On August 23, 2017, the Company announced that it had reached separate agreements with each of Steelhead and Greywolf to provide such shareholders with the ability to each nominate one individual for election to the Board, and that it would further work with Steelhead and Greywolf to review potential candidates for nomination to the Board at a later date. Messrs. Johnson and Cohen were first elected to the Board as nominees of Steelhead and Greywolf, respectively, at the Company's shareholder meeting held on August 29, 2017. The Company, Steelhead and Greywolf have further agreed upon the nomination of Ambassador Gagnon for election to the Board at the Meeting.

### Other Executive Officers

#### **Robert A. McGuinness**, Vice President of Finance, Chief Financial Officer

Mr. McGuinness' principal occupation with the Company is as vice president of finance since March 1993 and chief financial officer since June 1993. He has also served as vice president of finance for Gold Reserve Corporation since 1993, vice president of finance and director of GR Mining (Barbados) Inc. and GR Procurement (Barbados) Inc. since 2016, vice president of finance and director of GR Mining Group (Barbados) Inc. since 2018, vice president of finance, chief financial officer and treasurer of Great Basin Energies, Inc. and MGC Ventures, Inc. since 1997. Mr. McGuinness resides in Spokane, Washington, USA.

### Cease Trade Orders, Bankruptcies, Penalties and Sanctions

No proposed director of the Company is, as at the date hereof, or has been, within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including the Company) that:

- (a) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days, that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Other than as disclosed below, no proposed director of the Company or any personal holding company of such person has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

Mr. Coleman served as a director of Petrowest Corporation (“**Petrowest**”) until May 18, 2017. On August 15, 2017 the banking syndicate of Petrowest obtained an order from the Alberta Court of Queen’s Bench to place Petrowest into receivership.

## **Item 2 – Appointment of Independent Auditors**

It is proposed that the firm of PricewaterhouseCoopers LLP be appointed by the Shareholders as independent certified public accountants to audit the financial statements of the Company for the year ending December 31, 2020 and that the Board be authorized to fix the auditors’ remuneration. PricewaterhouseCoopers LLP were first appointed auditors of the Company in 2001. Representatives of PricewaterhouseCoopers LLP are not expected to be present at the Meeting.

**Management recommends that you vote FOR the appointment of PricewaterhouseCoopers LLP as the Company’s independent auditors at a remuneration to be fixed by the Board.**

**Unless such authority is withheld, the persons named in the accompanying proxy intend to vote FOR the appointment of PricewaterhouseCoopers LLP as the Company’s independent auditors at a remuneration to be fixed by the Board.**

## **Item 3 – Re-Pricing of Previously Granted Stock Options**

At the Meeting, Shareholders will be asked to consider and approve an ordinary resolution (the “**Option Re-Pricing Resolution**”), as set forth below, to re-price an aggregate of 2,045,000 outstanding stock options exercisable for the purchase of Class A Shares, the applicable details of which are set out in the table below (the “**Re-Priced Options**”), previously granted to Insiders (as such term is defined in the TSXV Corporate Finance Manual) of the Company by reducing the exercise price of each of such option to the higher of: (i) the original exercise price of each Re-Priced Option less \$0.76; and (ii) the closing price on the principal market of the Class A Shares on the day prior to the re-pricing becoming effective (the “**Option Re-Pricing**”). All outstanding stock options will be re-priced in this manner but approval of Shareholders is only required with respect to the stock options granted to Insiders.

The Company is seeking approval for the Option Re-Pricing in order to reflect the decrease in the market price of the Class A Shares as a result of the return of capital transaction that was completed on June 14, 2019 (the “**Return of Capital Transaction**”). The Return of Capital Transaction was approved at the meeting of Shareholders held on June 13, 2019 and was completed by way of a court-approved plan of arrangement, pursuant to which the Company returned an aggregate of \$75,000,000, or \$0.76 per then-outstanding Class A Share, to Shareholders.

Following the completion of the Return of Capital Transaction, the market price for the Class A Shares on the TSXV immediately fell by a significant amount approaching the amount returned to Shareholders, and has traded in a tight range close to such reduced price since that time. As such value has been transferred from the Company to Shareholders, it will not be reflected in the market price of the Class A Shares regardless of other efforts and events that might affect the market price of the Class A Shares. Thus, the Re-Priced Options are now significantly out-of-the-money with no reasonable prospect of becoming in-the-money following the Return of Capital Transaction. Recognizing that stock options are a critical element of the Company's compensation policy, the Board has determined that it is in the best interest of the Company to reprice all previously granted stock options, including those granted to certain Insiders, by reducing their exercise prices by up to a maximum of \$0.76 in order to reflect the impact of the Return of Capital Transaction on the market price of the Class A Shares. All other terms of the Re-Priced Options will remain unchanged. The Option Re-Pricing is subject to the final approval of the TSXV.

The Re-Priced Options were granted to the following directors and officers of the Company (collectively, the "**Option Holders**") as set out below:

<b>Name of Stock Option Holder</b>	<b>Grant Date</b>	<b>Number of Stock Options</b>	<b>Original Exercise Price</b>	<b>Proposed Amended Exercise Price <sup>1</sup> (C\$ <sup>2</sup>)</b>
Alexander Belanger	16-Feb-2017	300,000	\$3.15	\$2.39 (C\$3.20)
Robert Cohen	01-May-2017	125,000	\$2.69	\$1.93 (C\$2.58)
James Coleman	25-Jul-2014	25,000	\$4.02	\$3.26 (C\$4.36)
James Coleman	29-Jun-2015	75,000	\$3.91	\$3.15 (C\$4.21)
James Coleman	16-Feb-2017	400,000	\$3.15	\$2.39 (C\$3.20)
James Geyer	25-Jul-2014	25,000	\$4.02	\$3.26 (C\$4.36)
James Geyer	29-Jun-2015	35,000	\$3.91	\$3.15 (C\$4.21)
James Geyer	16-Feb-2017	125,000	\$3.15	\$2.39 (C\$3.20)
Robert McGuinness	25-Jul-2014	75,000	\$4.02	\$3.26 (C\$4.36)
Robert McGuinness	16-Feb-2017	50,000	\$3.15	\$2.39 (C\$3.20)
Robert McGuinness	16-Feb-2017	125,000	\$3.15	\$2.39 (C\$3.20)
Jean Potvin	25-Jul-2014	25,000	\$4.02	\$3.26 (C\$4.36)
Jean Potvin	29-Jun-2015	35,000	\$3.91	\$3.15 (C\$4.21)
Jean Potvin	16-Feb-2017	200,000	\$3.15	\$2.39 (C\$3.20)
Rockne Timm	16-Feb-2017	425,000	\$3.15	\$2.39 (C\$3.20)
<b>TOTAL</b>		<b>2,045,000</b>		

- (1) The closing price of the Class A Shares on the OTCQX on July 27, 2020 was \$1.83. In the event that the closing price on the day prior to the Option Re-Pricing becoming effective is higher than the proposed amended exercise price set out in this table, the Company will revise the exercise price of the Re-Priced Options to such closing price.
- (2) Based on the Bank of Canada exchange rate on July 27, 2020 of \$1.00 = C\$1.3378

The policies of the TSXV require that the Option Re-Pricing be approved by shareholders of the Company, excluding the Class A Shares held by the Option Holders (the "**Disinterested Shareholders**"). Based on the present shareholdings of the Option Holders and their associates, a total of 4,946,267 Class A Shares will be excluded from voting on the Option Re-Pricing Resolution, representing approximately 4.98% of

the total issued and outstanding Class A Shares as of the Record Date. Accordingly, the Disinterested Shareholders will be asked at the Meeting to pass the following Option Re-Pricing Resolution:

**“BE IT RESOLVED, AS AN ORDINARY RESOLUTION, WITH VOTES OF CERTAIN INSIDERS AND THEIR ASSOCIATES EXCLUDED THEREFROM, THAT:**

1. subject to the final acceptance of the TSX Venture Exchange, the exercise prices of certain stock options (the “Re-Priced Options”) exercisable for an aggregate of up to 2,045,000 Class A Shares in the capital of Gold Reserve Inc. (the “Company”), as more particularly described in the information circular of the Company dated July 28, 2020, are hereby reduced to the higher of: (i) the original exercise price of the Re-Priced Option less \$0.76; and (ii) the closing price on the principal market of the Class A Shares on the day prior to such re-pricing becoming effective;
2. the board of directors of the Company is hereby authorized in its absolute discretion to determine whether or not to proceed with the above resolution without further ratification or approval by the shareholders; and
3. any one director or officer of the Company is authorized, on behalf of the Company, to execute and deliver all other documents and do all such other acts and things as may be necessary or desirable to give effect to the foregoing resolutions.”

**Management recommends that Disinterested Shareholders vote FOR the Option Re-Pricing Resolution.**

**Unless such authority is withheld, the persons named in the accompanying proxy intend to vote FOR the approval of the Option Re-Pricing Plan Resolution.**

#### **Item 4 – Consolidated Financial Statements**

A copy of the consolidated financial statements of the Company for the year ended December 31, 2019 (the “**Financial Statements**”) and the report of the Company’s independent auditors on the Financial Statements are included in the 2019 Annual Report and will be submitted at the Meeting. Copies of the Financial Statements can also be obtained on [www.sedar.com](http://www.sedar.com) or [www.sec.gov](http://www.sec.gov). Shareholders are not being asked to vote on the receipt of the Financial Statements.

### **EXECUTIVE COMPENSATION**

The disclosure that follows has been prepared in accordance with the provisions of National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators.

#### **Compensation Discussion and Analysis**

The purpose of this Compensation Discussion and Analysis (“**CD&A**”) is to provide information about the Company’s executive compensation philosophy, objectives and processes and to discuss compensation decisions relating to certain of the Company’s senior officers, being the five identified named executive officers (the “**NEOs**”) during the Company’s most recently completed financial year, being the year ended December 31, 2019. The NEOs who are the focus of this CD&A and who appear in the executive compensation tables of this Circular are: James H. Coleman, executive director and chairman; Rockne J. Timm, chief executive officer (the “**CEO**”); A. Douglas Belanger, president; Robert A. McGuinness, vice president finance and chief financial officer (the “**CFO**”); and David P. Onzay, corporate controller.

### Compensation Committee

The Company's compensation program was administered during 2019 by the compensation committee of the Board (the "**Compensation Committee**"). The Compensation Committee is currently composed of the following directors:

Jean Charles Potvin (Chair)

James P. Geyer

James Michael Johnston

The Compensation Committee met seven times during 2019 via conference calls and email exchanges. While serving on the Compensation Committee, all of the members participated actively in all discussions. All of the members of the Compensation Committee have had direct experience in matters of executive compensation that is relevant to their responsibilities as members of such committee by virtue of their respective professions and long-standing involvement with public companies and matters of executive compensation. In addition, each member of the Compensation Committee keeps abreast on a regular basis of trends and developments affecting executive compensation.

The Board has determined that each member of the Compensation Committee satisfied the definition of "independent" director as established under National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("**NI 58-101**") of the Canadian Securities Administrators. The Compensation Committee currently has no written charter.

The function of the Compensation Committee is to evaluate the Company's performance and the performance of the NEOs. The Compensation Committee approves the cash and equity-based compensation of the NEOs and submits such approvals to the full Board for ratification. The Compensation Committee also reviews the Company's compensation plans, policies and programs and other specific compensation arrangements to assess whether they meet the Company's risk profile and to ensure they do not encourage excessive risk taking on the part of the recipient of such compensation. The Board has complete discretion over the amount and composition of each NEO's compensation. Compensation matters relating to the directors were administered by the full Board. Compensation matters relating to each NEO that is a member of the Board were administered by the Compensation Committee.

The Company currently does not anticipate making any significant changes to its compensation policies and practices in 2020.

### Compensation Program Philosophy

The goal of the compensation program is to attract, retain and reward employees and other individuals who contribute to both the immediate and the long-term success of the Company. Contributions are largely measured subjectively, and are rewarded through cash and equity-based compensation.

The following objectives are considered in setting the compensation programs for the NEOs:

- set compensation and incentive levels that reflect competitive market practices for similar experience and similar size companies; and
- encourage stock holdings to align the interests of the NEOs with those of Shareholders.

The Company evaluates the extent to which strategic and business goals are met and measures individual performance, albeit subjectively, and the degree to which teamwork and Company objectives are promoted. The Company strives to achieve a balance between the compensation paid to a particular individual and the compensation paid to other employees and executives having similar responsibilities within the Company. The Company also strives to ensure that each employee understands the components of his or her salary, and the basis upon which it is determined and adjusted.

While the Company encourages NEOs to own Class A Shares of the Company, the Company does not currently have a policy requiring officers or directors of the Company to own Class A Shares.

The Compensation Committee has considered the risk implications of the Company's compensation policies and practices and has concluded that there is no appreciable risk associated with such policies and practices as such policies and practices do not have the potential of encouraging an executive officer or other applicable individual to take on any undue risk or to otherwise expose the Company to inappropriate or excessive risks. Furthermore, although the Company does not have in place any specific prohibitions preventing a NEO or a director from purchasing financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, that are designed to hedge or offset a decrease in market value of stock options or other equity securities of the Company granted in compensation or held directly or indirectly, by the NEO or director, the Company is unaware of the purchase of any such financial instruments by any NEO or director.

During 2019, the Company did not retain a compensation consultant or advisor to assist the Board or Compensation Committee in determining compensation for the Company's executive officers and directors.

### **Compensation Elements and Rationale for Pay Mix Decisions**

To reward both short and long-term performance in the compensation program and in furtherance of the Company's compensation objectives noted above, the Company's executive compensation philosophy includes the following two principles:

#### *Compensation levels should be competitive*

A competitive compensation program is vital to the Company's ability to attract and retain qualified senior executives. The Company regularly assesses peer group data to ensure that the compensation program is competitive.

#### *Incentive compensation should balance short and long-term performance*

To reinforce the importance of balancing strong short-term annual results and long-term viability and success, NEOs may receive both short and long-term incentives. Short-term incentives focus on the achievement of certain objectives for the upcoming year, while stock options create a focus on share price appreciation over the long term.

### **Compensation Benchmarking**

The Company in the past established base salaries and other compensation by using an extensive internal survey of base salaries paid to officers of mining companies with similar experience in the mining industry and therefore proved a good basis on which to make the comparison. The companies considered in the most recent internal survey were:

Centerra Gold Inc.	Seabridge Gold Inc.
Osisko Mining Inc.	Endeavour Mining Corporation
Gold X Mining Corp	Ivanhoe Mines Ltd.
Lydian International Limited	Northern Dynasty Minerals Ltd.
NovaGold Resources Inc.	Pretium Resource Inc.

All of the participants of the internally generated survey are listed on the NYSE MKT, the Toronto Stock Exchange, or the TSX Venture Exchange (the "TSXV"). The Company believes that the survey is a very good representation of average salaries paid to officers with similar levels of experience with comparable mining companies and therefore a good basis on which to make comparisons. The data was obtained from publicly available information.

## Components of Executive Compensation

The components of executive compensation are as follows:

*Base Salary.* The administration of the program requires the Compensation Committee to review annually the base salary of each NEO and to consider various factors, including individual performance, experience, length of time in position, future potential, responsibility, and the executive's current salary in relation to the executive salary range at other mining companies. These factors are considered subjectively and none are accorded a specific weight.

*Bonuses.* In addition to base salary, the Compensation Committee from time-to-time recommends to the Board payments of discretionary bonuses to executives and selected employees. Such bonuses are based on the same criteria and determined in a similar fashion as described above.

*Equity.* The Compensation Committee from time-to-time recommends to the Board grants of stock options to executives and selected employees. These grants are to motivate the executives and selected employees to achieve goals that are consistent with the Company's business strategies, to create Shareholder value and to attract and retain skilled and talented executives and employees. These factors are considered subjectively and none are accorded a specific weight when granting awards.

*KSOP Plan Contribution.* The Compensation Committee annually determines the contribution to an employee stock ownership plan with 401(k) provisions maintained by the Company's subsidiary, Gold Reserve Corporation (the "**KSOP Plan**"), for allocation to individual participants. Participation in and contributions to the KSOP Plan by individual employees, including officers, is governed by the terms of the KSOP Plan. See "*Incentive Plans – KSOP Plan*".

### *Chief Executive Officer's Compensation*

It is the responsibility of the Compensation Committee to review and recommend to the Board for ratification the compensation package for the CEO based on the same factors listed above that are used in determining the base salaries for the other NEOs.

The Compensation Committee has not developed specific quantitative or qualitative performance measures or other specific criteria for determining the compensation of the Company's CEO, primarily because the Company does not yet have a producing mine or other operations from which such quantitative data can be derived.

The determination of the CEO's compensation in 2019 was based on an internal survey of other companies previously mentioned herein, was subjective, and based on the progress of the proceedings relating to the resolution of the investment dispute with Venezuela, and the pursuit of new corporate opportunities.

### *Other NEOs' Compensation*

In determining the compensation of the other NEOs, the compensation during 2019 was also based on an internal survey of other companies, was subjective, and based on the progress of the proceedings relating to the resolution of the investment dispute with Venezuela, and the pursuit of new corporate opportunities. Generally, the Compensation Committee considers prior compensation and equity grants when considering current compensation.

## Change of Control Agreements

The Company maintains change of control agreements with each of the NEOs (the "**Change of Control Agreements**") which were implemented by the Board to induce the NEOs to remain with the Company.

See "*Termination and Change of Control Benefits*" below.

## Summary Compensation Table

The following table discloses the compensation paid or granted by the Company to the NEOs for each of the fiscal years ended December 31, 2019, 2018, and 2017.

The amounts related to the option-based awards and the share-based awards do not necessarily represent the value of the Class A Shares when vesting occurs, the value of the stock options when exercised, or value the employee may realize from the sale of the Class A Shares.

Name and Principal Position	Year	Salary (\$)	Share-based Awards	Option-based Awards	Non-equity Incentive plan compensation		Pension value (\$)	All Other Compensation (\$)	Total Compensation (\$)
			(\$)	(\$)	Annual incentive plans	Long-term incentive plans			
James H. Coleman <sup>(1)</sup> Executive Chairman and Director	2019	500,000	-	-	n/a	n/a	n/a	87,229 <sup>(2)</sup>	587,229
	2018	500,000	-	-	n/a	n/a	n/a	641,830 <sup>(3)</sup>	1,141,830
	2017	500,000	-	834,013 <sup>(4)</sup>	n/a	n/a	n/a	3,268,718 <sup>(5)</sup>	4,602,731
Rockne J. Timm <sup>(1)</sup> Chief Executive Officer and Director	2019	625,000	-	-	n/a	n/a	n/a	87,229 <sup>(2)</sup>	712,229
	2018	625,000	-	-	n/a	n/a	n/a	515,358 <sup>(3)</sup>	1,140,358
	2017	625,000	-	886,138 <sup>(4)</sup>	n/a	n/a	n/a	4,185,668 <sup>(5)</sup>	5,696,806
Robert A. McGuinness Vice President Finance and CFO	2019	241,500	-	-	n/a	n/a	n/a	58,449 <sup>(2)</sup>	299,949
	2018	241,500	-	-	n/a	n/a	n/a	253,087 <sup>(3)</sup>	494,587
	2017	241,500	-	208,503 <sup>(6)</sup>	n/a	n/a	n/a	841,739 <sup>(5)</sup>	1,291,742
A. Douglas Belanger <sup>(1)</sup> President and Director	2019	450,000	-	-	n/a	n/a	n/a	87,229 <sup>(2)</sup>	537,229
	2018	450,000	-	-	n/a	n/a	n/a	515,358 <sup>(3)</sup>	965,358
	2017	450,000	-	625,510 <sup>(4)</sup>	n/a	n/a	n/a	3,453,174 <sup>(5)</sup>	4,528,684
David P. Onzay Corporate Controller	2019	138,000	-	-	n/a	n/a	n/a	33,008 <sup>(2)</sup>	171,008
	2018	138,000	-	-	n/a	n/a	n/a	155,225 <sup>(3)</sup>	293,225
	2017	138,000	-	109,464 <sup>(6)</sup>	n/a	n/a	n/a	542,671 <sup>(5)</sup>	790,135

- (1) Messrs. Coleman, Timm and Belanger did not receive compensation for their roles as directors.
- (2) Other compensation for 2019 consists of payment under Bonus Plan (see “2012 Bonus Pool Plan” below for more information regarding the Bonus Plan), and the Company’s contribution in the form of cash to each of the NEOs allocated to the KSOP Plan (or similar arrangement in the case of Mr. Coleman) for 2019 as follows:

	Payment under Bonus Plan (\$)	KSOP and Other (\$)	Total (\$)
James H. Coleman	48,029	39,200	87,229
Rockne J. Timm	48,029	39,200	87,229
Robert A. McGuinness	21,613	36,836	58,449
A. Douglas Belanger	48,029	39,200	87,229
David P. Onzay	12,007	21,001	33,008

- (3) Other compensation for 2018 consists of payment under Bonus Plan and the Company’s contribution in the form of cash to each of the NEOs allocated to the KSOP Plan (or similar arrangement in the case of Mr. Coleman) for 2018 as follows:

	Payment under Bonus Plan (\$)	KSOP and Other (\$)	Total (\$)
James H. Coleman	603,330	38,500	641,830
Rockne J. Timm	476,858	38,500	515,358
Robert A. McGuinness	214,587	38,500	253,087
A. Douglas Belanger	476,858	38,500	515,358
David P. Onzay	119,215	36,010	155,225



- (4) On February 16, 2017, the Company granted stock options to the NEOs as follows: Mr. Coleman, 800,000; Mr. Timm, 850,000 and Mr. Belanger, 600,000, with an exercise price of \$3.15 per share. The fair market value of these stock options at the date of grant was estimated using the Black-Scholes valuation model, which valuation model the Company has determined to be the most accurate measure of value for option-based awards with the following assumptions: a two year expected term; expected volatility of 59%; risk free interest rate of 1.22% per annum; and a dividend rate of 0%. The weighted average grant date fair value of the stock options granted during 2017 was calculated at approximately \$1.04. The stock options vested immediately.
- (5) Other compensation for 2017 consists of the payment for Retention Units (see “*Incentive Plans – Retention Units*” below for more information regarding the Retention Units), payment under Bonus Plan, bonuses to cover the exercise of stock options and resulting tax payments on the gain associated with the exercise of stock options, and the Company’s contribution in the form of cash to each of the NEOs allocated to the KSOP Plan (or similar arrangement in the case of Mr. Coleman) for 2017 as follows:

	Payment of Retention Units (\$)	Payment under Bonus Plan (\$)	Cash Bonus to Exercise Stock Options (\$)	KSOP and Other (\$)	Total (\$)
James H. Coleman	442,000	31,618	2,760,000	35,100	3,268,718
Rockne J. Timm	1,502,000	158,090	2,490,478	35,100	4,185,668
Robert A. McGuinness	589,000	71,140	146,499	35,100	841,739
A. Douglas Belanger	1,502,000	158,090	1,757,984	35,100	3,453,174
David P. Onzay	394,800	39,522	73,249	35,100	542,671

- (6) On February 16, 2017, the Company granted 200,000 stock options to Mr. McGuinness and 105,000 to Mr. Onzay with an exercise price of \$3.15 per share. The fair market value of these stock options at the date of grant was estimated using the Black-Scholes valuation model, which valuation model the Company has determined to be the most accurate measure of value for option-based awards with the following assumptions: a two year expected term; expected volatility of 59%; risk free interest rate of 1.22% per annum; and a dividend rate of 0%. The weighted average grant date fair value of the stock options granted during 2017 was calculated at approximately \$1.04. The stock options vest as follows: 1/2 upon grant, 1/4 on February 16, 2018, and 1/4 on February 16, 2019.

### Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information concerning all outstanding stock options to acquire Class A Shares granted to the NEOs outstanding as at December 31, 2019. No share-based awards were outstanding as at December 31, 2019.

Name	Grant Date	Option-based Awards				Share-based Awards		
		Number of securities underlying unexercised options #	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options <sup>(1)</sup> (\$)	Number of shares or units of shares that have not vested #	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of share-based awards not paid out or distributed (\$)
James H. Coleman Executive Chairman and Director	7/25/2014	25,000	4.02	7/25/2024	-	-	-	-
	6/29/2015	75,000	3.91	6/29/2025	-	-	-	-
	2/16/2017	400,000	3.15	2/16/2027	-	-	-	-
	Total	500,000			-	-	-	-
Rockne J. Timm Chief Executive Officer and Director	2/16/2017	425,000	3.15	2/16/2027	-	-	-	-
	Total	425,000			-	-	-	-
Robert A. McGuinness Vice President Finance and CFO	7/25/2014	75,000	4.02	7/25/2024	-	-	-	-
	2/16/2017	50,000	3.15	2/16/2027	-	-	-	-
	2/16/2017	125,000	3.15	2/16/2027	-	-	-	-
	Total	250,000			-	-	-	-
A. Douglas Belanger President and Director	2/16/2017	300,000	3.15	2/16/2027	-	-	-	-
David P. Onzay Corporate Controller	7/25/2014	50,000	4.02	7/25/2024	-	-	-	-
	2/16/2017	12,500	3.15	2/16/2027	-	-	-	-
	2/16/2017	80,000	3.15	2/16/2027	-	-	-	-
	Total	142,500	-	-	-	-	-	-

- (1) The “Value of unexercised in-the-money options” was calculated by determining the difference between the market value of the securities underlying the option at the end of the financial year and the exercise price of such stock options. At December 31, 2019 the closing price of the Class A Shares on the OTCQX was \$1.5073.

### Options Vested During the Year

The following table sets forth information for NEOs regarding the value of stock options vesting during 2019, of which there were none, as the market price was less than the exercise price. There are no share-based awards outstanding, and no non-equity incentive plan compensation was earned during 2019.

Name	Option-based awards – Value vested during the year \$	Share-based awards – Value vested during the year \$	Non-equity incentive plan compensation – Value earned during the year \$
James H. Coleman Executive Chairman and Director	-	-	-
Rockne J. Timm Chief Executive Officer and Director	-	-	-
Robert A. McGuinness <sup>(1)</sup> Vice President Finance and CFO	-	-	-
A. Douglas Belanger President and Director	-	-	-
David P. Onzay <sup>(1)</sup> Corporate Controller	-	-	-

- (1) On February 16, 2019, 50,000 stock options vested for Mr. McGuinness and 26,666 for Mr. Onzay with an exercise price of \$3.15 per share and a market price of \$2.50 per share.

### Incentive Plans

#### *The 2012 Equity Incentive Plan, as amended and restated (the “2012 Plan”)*

The 2012 Plan was adopted by the Board for the employees, officers, directors and consultants of the Company and its subsidiaries and permits the grant of stock options, which are exercisable for Class A Shares.

The maximum number of Class A Shares issuable under stock options granted under the 2012 Plan is 8,750,000 Class A Shares. At the date of this Circular 2,073,435 stock options have been exercised, 4,369,565 stock options are outstanding and 2,307,000 are available for grant.

#### *Securities Authorized for issuance under Equity Compensation Plans*

The following table sets forth certain information regarding the 2012 Plan as of December 31, 2019:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under 2012 Plan
Equity Incentive Plans approved by Shareholders	N/A	N/A	N/A
2012 Equity Incentive Plan not approved by Shareholders	4,369,565	\$3.09	2,307,000
Total	4,369,565	\$3.09	2,307,000

The 2012 Plan was established to provide incentives to qualified parties to increase their proprietary interest in the Company and thereby encourage their continuing association with the Company. The Company provides newly issued Class A Shares to satisfy stock option exercises. The grants are made for terms of up to ten years with vesting periods as required by the TSXV and is administered by a committee of the Board, and in certain cases by the Board, established pursuant to the terms of the 2012 Plan.

In accordance with the rules of the TSXV the number of Class A Shares which may be reserved for issuance to any one person may not exceed 5% of the issued Class A Shares in a 12-month period, calculated as at the date the stock options are granted to such person. In addition pursuant to such rules and as set forth in the 2012 Plan, the Company may not grant stock options providing for the issuance of more than 2% of the issued Class A Shares to any one consultant in any 12-month period, calculated as at the date the stock options are granted to such consultant, and the Company may not grant stock options providing for the issuance, in the aggregate, of more than 2% of the issued Class A Shares to all persons retained to conduct investor relations activities in any 12-month period, calculated as at the date the stock options are granted to such persons.

The 2012 Plan also provides for the following:

- (a) stock options granted under the 2012 Plan will have an expiry date not to exceed 10 years from the date of grant;
- (b) any stock options granted that expire or terminate for certain reasons without having been exercised will again be available under the 2012 Plan;
- (c) stock options will vest as required by the TSXV and as may be determined by a committee established pursuant to the 2012 Plan, or in certain cases, by the Board;
- (d) the minimum exercise price of any stock options issued under the 2012 Plan will be the last previous closing price on the date of grant, subject to the requirements of the TSXV; and
- (e) the Board is authorized to grant to participants that number of stock options under the 2012 Plan not exceeding 8,750,000 of the issued and outstanding Class A Shares of the Company, less the number of currently outstanding stock options.

Amendments to the 2012 Plan may be made by the Board without Shareholder approval to:

- (a) amend the 2012 Plan to correct typographical, grammatical or clerical errors;
- (b) change the vesting provisions of an option granted under the 2012 Plan, subject to prior written approval of the TSXV, if applicable;
- (c) change the termination provision of an option granted under the 2012 Plan if it does not entail an extension beyond the original expiry date of such option;
- (d) make such amendments to the 2012 Plan as are necessary or desirable to reflect changes to securities laws applicable to the Company;
- (e) make such amendments as may otherwise be permitted by the TSXV, if applicable; and
- (f) amend the 2012 Plan to reduce the benefits that may be granted to new plan participants.

The Board is of the view that the 2012 Plan provides the Company with the flexibility to attract and maintain the services of directors, executives, employees and other service providers in competition with other companies in the industry.

### ***KSOP Plan***

The Company's subsidiary, Gold Reserve Corporation, maintains a KSOP Plan for the benefit of eligible employees. The KSOP Plan consists of two components: (1) a salary reduction component and a 401(k) which includes provisions for discretionary contributions by the Company, and (2) an employee share ownership component, or ESOP. Eligible employees are those who have been employed for a period in excess of one year and who have worked at least 1,000 hours during the year in which any allocation is to be made.

Employee contributions to the 401(k) component of the KSOP Plan are limited in each year to the total amount of salary reduction the employee elects to defer during the year, which is limited in 2020 to \$19,500 (\$26,000 limit for participants who are 50 or more years of age, or who turn 50 during 2020).

Employer contributions, stated as a percentage of eligible compensation, are determined each year by the Board. The employer contributions are disclosed under "Executive Compensation – Summary Compensation Tables", under the column "All Other Compensation". All contributions, once made to the individual's account under the KSOP Plan, are thereafter self-directed.

Total employer and employee annual contributions to an employee participating in both the 401(k) and ESOP components of the KSOP Plan are limited (in 2020) to a maximum of \$57,000 (\$63,500 limit for participants who are 50 or more years of age or who turn 50 during 2020). The annual dollar limit is an aggregate limit which applies to all contributions made under this plan. For KSOP Plan year 2020 the Company has adopted a minimum "Safe Harbor" contribution of 3% of eligible compensation.

Distributions from the KSOP Plan are not permitted before the participating employee reaches the age of 59 and six months, except in the case of death, disability, termination of employment by the Company or financial hardship. Allocated cash contributions to eligible KSOP Plan participants (7 participants for 2019) for plan years 2019, 2018, and 2017 were \$171,188, \$212,025, and \$234,252, respectively.

### ***Retention Units***

The Company has a Director and Employee Retention Plan (the "**Retention Plan**") for the primary purposes of: (1) attracting and retaining directors, management and personnel with the training, experiences, and ability to enable them to make a substantial contribution to the success of the business of the Company, (2) to motivate participants by means of growth-related incentives to achieve long range goals, (3) to further the identity of interests of participants with those of the Shareholders through equity-based incentive opportunities and (4) to allow each participant to share in the value of the Company following the grant of retention units (the "**Retention Units**").

The Board or a committee thereof may grant Units to directors and certain key employees of the Company or its subsidiaries. The Units fully vest and are payable upon the achievement of pre-established goals or a Change of Control (described below).

In June 2017, as a result of the collection of proceeds related to the sale of the Company's Mining Data to Venezuela, the Retention Units issued in October 2006 and December 2007 vested and, in the third quarter of 2017, the Company paid \$7.7 million to plan participants. No Retention Units were granted to directors, executive officers, or employees in 2019, 2018, or 2017. As of December 31, 2019, no Retention Units remained outstanding.

## Termination and Change of Control Benefits

### *Termination of Employment, Change in Responsibilities and Employment Contracts*

At this time, there are no written employment agreements between the Company and the NEOs.

The Company maintains Change of Control Agreements with each of the NEOs, which were implemented by the Board to induce the NEOs to remain with the Company in the event of a Change of Control. The Board believes these individuals are important assets to the Company and their continued employment is important to oversee the current settlement arrangement with Venezuela including the development of the Siembra Minera Project. The Board further believes that the loss of their continued services could have a detrimental impact on the successful outcome of the current settlement arrangement with Venezuela and the future of the Siembra Minera Project.

### *Existing Change of Control Arrangements with Executive Officers*

Beginning in 2003, the Company entered into Change of Control Agreements with each of the NEOs (other than Mr. Coleman) and three other employees. On May 26, 2017, the Board approved a Change of Control Agreement with Mr. Coleman. Other than as disclosed herein, no other executive officers, directors or affiliates of the Company have Change of Control Agreements with the Company.

A “Change of Control” means one or more of the following:

- (a) the acquisition by any individual, entity or group, of beneficial ownership of the Company of 25 percent of the voting power of the outstanding Class A Shares;
- (b) a change in the composition of the Board (the “**Incumbent Board**”) that causes less than a majority of the current directors of the Board to be members of the incoming board; however, that any individual becoming a director subsequent to the effective date of the Change of Control Agreements, whose election, or nomination for election by the Shareholders, was approved by a vote of at least the majority of the directors then comprising the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board;
- (c) the consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company;
- (d) the approval by Shareholders of the liquidation or dissolution of the Company; or
- (e) any other event or series of events which the Board reasonably determines constitutes a Change of Control.

Pursuant to the Change of Control Agreements, in the event of a Change of Control each participant is entitled to, among other things, continue employment with the Company and, if the participant’s employment is terminated within 12 months following the Change of Control either voluntarily by the participant or by the Company for any reason other than termination for cause, such participant will be entitled to receive, among other things:

- (a) an amount equal to 24 times his monthly salary (36 times for Mr. Timm, Mr. Belanger and Mr. Coleman), determined as of the date immediately prior to termination or the Change of Control, whichever is greater (the Change of Control time period of 24 months compared to 36 months is based primarily on seniority of position and responsibility and length of service with the Company);
- (b) an amount equal to two years of the Company’s KSOP contributions (based upon the maximum allowable allocation pursuant to applicable law and the participant’s annual salary immediately prior to his termination date or the Change of Control, whichever is greater);

- (c) an amount equal to the aggregate of all bonuses received during the 12 months prior to his termination date, plus any amounts required to be paid in connection with unpaid vacation time;
- (d) a payment equal to two times the monthly premium for maintenance of health, life, accidental death and dismemberment, and long term disability insurance benefits for a period of 36 months;
- (e) cause all equity awards or equity-based awards (including stock options and restricted shares) granted to the participant to become fully vested and unrestricted; and
- (f) at the election of the participant, the buy-out of the cash value of any unexercised stock options based upon the amount by which the weighted average trading price of the Class A Shares for the last five days preceding the date the participant makes such election exceeds the exercise price of the stock options.

As further discussed in the following two paragraphs, the participants are entitled to receive certain “gross-up payments” (that is, an excess parachute gross-up payment and a deferred compensation gross-up payment) if payments that he receives are subject to the excise tax under Code Section 4999 on excess parachute payments or the additional tax and interest factor tax under Code Section 409A on deferred compensation. The intent of these gross-up payments is to put the participant in the same position, after tax, that he would have been in if the payments that the participant received had not been subject to the excise and additional taxes.

The Change of Control Agreements also provide for a gross-up payment if any payment made to or for the benefit of a participant (“**Excess Parachute Payment**”) would be subject to the excise tax imposed by Code Section 4999, or any interest or penalties are incurred by the participant with respect to such excise tax. The Company will pay to the participant an additional payment (“**Excess Parachute Gross-Up Payment**”) in an amount such that after payment by the participant of all taxes on the Excess Parachute Gross-Up Payment, the participant retains an amount of the Excess Parachute Gross-Up Payment equal to the excise tax (and any interest or penalties) imposed upon the participants Excess Parachute Payment.

The Change of Control Agreements further provide for a gross-up payment if any payment made to or for the benefit of a participant (“**Deferred Compensation Payment**”) would be subject to the additional tax or additional interest on any underpayment of tax imposed by Code Section 409A, or any interest or penalties are incurred by the participant with respect to such additional tax or underpayment of tax. The Company will pay to the participant an additional payment (“**Deferred Compensation Gross-Up Payment**”) in an amount such that after payment by the participant of all taxes on the Deferred Compensation Gross-Up Payment, the participant retains an amount of the Deferred Compensation Gross-Up Payment equal to the additional tax and additional interest on any underpayment of tax (and any interest or penalties) imposed upon the participant’s Deferred Compensation Payment.

Payments may be delayed six months under Code Section 409A. In the event of such a delay, the delayed payments will be made to a rabbi trust. Upon the completion of the six-month delay period, the payments held in the rabbi trust will be paid to the participant plus interest at the prime rate. The Company will pay all costs associated with the rabbi trust.

Participants would have been entitled to collectively receive an aggregate of approximately **\$7.1 million** if a Change of Control had occurred on December 31, 2019. Although all persons with Change of Control Agreements can elect the buy-out of their stock options as described above, the amount above does not consider any such election as the exercise price of all outstanding stock options exceeded the market value of the Class A Shares as of December 31, 2019. The aggregate amount due was determined exclusive of any gross-up payments, which could be substantial depending on the tax position of each individual.

The following table represents the estimated payout for employees holding Change of Control Agreements at December 31, 2019. These amounts were determined exclusive of any gross-up payments, which could be substantial depending on the tax position of each individual.

Name	Compensation <sup>(1)</sup> \$	Payout of Stock Options <sup>(2)</sup> \$	Total \$
James Coleman	1,662,429	-	1,662,429
Rockne J. Timm	2,150,340	-	2,150,340
Robert A. McGuinness	660,160	-	660,160
A. Douglas Belanger	1,626,689	-	1,626,689
David P. Onzay	555,131	-	555,131
Total NEOs	6,654,749	-	6,654,749
Other participants	400,000	-	400,000
Total	7,054,749	-	7,054,749

(1) Represents the estimated payout as of December 31, 2019 of the associated salary, vacation, KSOP contribution, bonus and insurance.

(2) Represents the payout of in-the-money stock options.

## DIRECTOR COMPENSATION

### Summary Director Fee Tables

Effective November 1, 2017, the Board approved a basic annual retainer of \$60,000 for non-employee Board members and the following annual retainers for non-employee Committee chairs: the audit committee of the Board (the “**Audit Committee**”) \$8,000; the Compensation Committee \$6,000; the nominating committee of the Board (the “**Nominating Committee**”) \$6,000; the mining committee of the Board (the “**Mining Committee**”) \$6,000; Barbados Committee \$6,000; the legal committee of the Board (the “**Legal Committee**”) \$6,000; and the financial markets Committee of the Board (the “**Financial Markets Committee**”) \$6,000. All other non-employee Committee members receive an annual retainer of \$4,000. Payments are made on a quarterly basis.

Name	Year	Fees Earned <sup>(1)</sup> \$	Share- based awards \$	Option-based awards \$	Non-equity Incentive plan compensation	All Other Compensation \$ <sup>(2)</sup>	Total \$
Jean Charles Potvin	2019	88,000	-	-	-	10,803	98,803
Robert A. Cohen	2019	70,000	-	-	-	5,300	75,300
James Michael Johnston	2019	68,000	-	-	-	-	68,000
James P. Geyer	2019	74,000	-	-	-	7,204	81,204

(1) Represents cash fees granted as director during the year including committee fees.

(2) Other compensation for 2019 consists of payments under the Bonus Plan (please see “2012 Bonus Pool Plan” below for more information regarding the Bonus Plan) and Per Diem Travel, as follows:

	Bonus Plan	Per Diem Travel	Total
Jean Charles Potvin	\$4,803	\$6,000	\$10,803
Robert A. Cohen	-	\$5,300	\$5,300
James P. Geyer	\$7,204	-	\$7,204

Certain NEOs, being Messrs. Coleman, Timm and Belanger, are also directors of the Company. None of such NEOs receive any additional compensation for acting as a director of the Company.



The following table sets forth information concerning all outstanding stock options to acquire Class A Shares granted to the directors as at December 31, 2019. No Share-based awards were outstanding as at December 31, 2019.

Name	Grant Date	Option-based Awards				Share-based Awards		
		Number of securities underlying unexercised options #	Option exercise price \$	Option expiration Date	Value of unexercised in-the-money options <sup>(1)</sup> \$	Number of shares or units of shares that have not vested #	Market or payout value of share-based awards that have not vested \$	Market or payout value of share-based awards not paid out or distributed \$
Jean Charles Potvin	7/25/2014	25,000	4.02	7/25/2024	-	-	-	-
	6/29/2015	35,000	3.91	6/29/2025	-	-	-	-
	2/16/2017	200,000	3.15	2/16/2027	-	-	-	-
Total		260,000			-	-	-	-
Robert A. Cohen	5/1/2017	125,000	2.69	5/1/2027	-	-	-	-
Total		125,000			-	-	-	-
James Michael Johnston	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
James P. Geyer	7/25/2014	25,000	4.02	7/25/2024	-	-	-	-
	6/29/2015	35,000	3.91	6/29/2025	-	-	-	-
	2/16/2017	125,000	3.15	2/16/2027	-	-	-	-
Total		185,000			-	-	-	-

(1) The “Value of unexercised in-the-money options” was calculated by determining the difference between the market value of the securities underlying the option at the end of the financial year and the exercise price of such stock options. At December 31, 2019 the closing price of the Class A Shares on the OTCQX was \$1.5073.

### Options Vested During the Year

The following table sets forth information for the directors other than the NEOs regarding the value of stock options vesting during 2019 for which there was none as the market price was less than the exercise price. There are no share-based awards outstanding, and no non-equity incentive plan compensation was earned during 2019.

Name	Option-based awards – Value vested during the year \$	Share-based awards – Value vested during the year \$	Non-equity incentive plan compensation – Value earned during the year \$
Jean Charles Potvin <sup>(1)</sup>	-	-	-
Robert A. Cohen	-	-	-
James Michael Johnston	-	-	-
James P. Geyer <sup>(1)</sup>	-	-	-

(1) On February 16, 2019, the following stock options vested: Mr. Potvin 66,666 and Mr. Geyer 41,666, each with an exercise price of \$3.15 per share and a market price of \$2.50 per share.

### Directors and Officers Insurance

The Company carries directors’ and officers’ liability insurance which is subject to a total aggregate limit of approximately \$10 million. The annual premium for the latest policy period beginning April 2020 was \$901,000. In addition, the Company elected in 2018 to exercise its options to obtain additional run

off/extended reporting period coverage of \$8 million for six years at an annual cost of approximately \$72,000, from its previous primary coverage provider.

### 2012 Bonus Pool Plan

The Board approved the 2012 Bonus Pool Plan (“**Bonus Plan**”) in May 2012 to reward Bonus Plan participants, including NEOs, employees, directors and consultants, for their contributions to, among other things: (i) the development of the Brisas Project to the construction stage and subsequent issuance of the environmental permit to commence construction of the Brisas Project; (ii) the manner in which the Brisas Project development effort was carried out allowing the Company to present a compelling and vigorous arbitration claim; (iii) the support of the Company’s prosecution of the arbitration proceedings through the filing of numerous memorandum and exhibits as well as the oral hearings (the “**Arbitration Proceedings**”); and (iv) the on-going efforts to assist with positioning the Company to collect, in the most optimum manner, any awards arising out of the Arbitration Proceedings and/or sale of the Mining Data.

In January 2013 and September 2014, the Compensation Committee selected Bonus Plan participants and fixed their respective percentage of participation in the bonus pool and since September 2014 the Plan was 100% allocated to plan participants. In June 2018, the Board modified the Bonus Plan to increase the percentage participation of certain individuals who in the Board’s opinion were not adequately recognized for their current contribution to efforts associated with the conclusion of the Settlement Agreement and the collection of the amounts contemplated thereunder. The effect of the Board’s modification to the Bonus Plan is more fully described below. The Bonus Plan is administered by a committee, composed of one or more independent members of the Board, appointed from time to time by the Board. Participation in the Bonus Plan fully vests upon the participant’s selection by the committee, subject to voluntary termination of employment or termination for cause. Participants who reach age 65 and retire are fully vested and continue to participate in future distributions under the Plan.

Generally the bonus pool is established if and when the Company (i) recovers any settlement, award, or other payment made or other consideration transferred to the Company or any of its affiliates outside of Venezuela, arising out of, in connection with or with respect to the Arbitration Proceedings, including, but not limited to the proceeds received by the Company or its affiliates from a sale, pledge, transfer or other disposition, directly or indirectly, of the Company’s rights with respect to the Arbitration Proceedings; (ii) sells, pledges, transfers or disposes, directly or indirectly, of all or any portion of the Mining Data, or (iii) in the event the Company or its Shareholders, directly or indirectly, engage in any (a) merger, plan of arrangement or other business combination transaction involving the Company or any of its subsidiaries, (b) a sale, pledge, transfer or other disposition of 85% or more of the Company’s then outstanding Class A Shares or (c) sale, pledge, transfer or other disposition, directly or indirectly, of all or substantially all of the assets of the Company (“**Enterprise Sale**”).

In the case of the collection of the Award or disposition of the Mining Data, the bonus pool is comprised of the gross proceeds or the fair value of any consideration related to such transactions less certain deductions and applicable taxes and in the case of an Enterprise Sale the gross value of the transaction will be considered before any applicable taxes and after any Change of Control payments. The bonus pool, as originally structured, was comprised of the applicable gross proceeds or fair value realized less applicable taxes multiplied by 1% of the first \$200 million and 5% thereafter. The effect of the Board’s June 2018 modification was to increase the after tax percentage allocation for the first \$200 million up to a maximum of 1.28% and the percentage allocation thereafter up to a maximum of 6.4%.

Based on the proceeds from the sale of the Mining Data and the receipt of payments associated with the Award, the Company in 2019 distributed to participants, including the NEOs, approximately \$0.31 million, which is discussed in the compensation section.

## **INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS OTHER THAN SECURITIES PURCHASE PROGRAMS**

As of the date hereof or at any time within thirty days prior to the date hereof, no executive officer, director, employee, or former executive officer, director or employee of the Company is or was indebted in respect of any purchase of securities or otherwise to the Company or any of its subsidiaries, or to any other entity for which the indebtedness was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

## **CORPORATE GOVERNANCE**

### **Corporate Governance Matters**

The Board and management of the Company recognize that effective corporate governance practices are fundamental to the long-term success of the Company. Sound corporate governance contributes to Shareholder value through increased confidence. The Board and management are therefore committed to maintaining a high standard of corporate governance and compliance with the applicable provisions of National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (“**NI 58-101**”). Additionally, while not currently prescriptive, the Board and management consider and, where appropriate, implement the corporate governance guidelines suggested in National Policy 58-201 – *Corporate Governance Guidelines* (“**NP 58-201**”). The guidelines contained in NP 58-201 have been formulated to:

1. achieve a balance between providing protection to investors and fostering fair and efficient capital markets and confidence in capital markets;
2. be sensitive to the realities of the greater numbers of small companies and controlled companies in the Canadian corporate landscape;
3. take into account the impact of corporate governance developments in the U.S. and around the world; and
4. recognize that corporate governance is evolving.

### **Independence and Board Matters**

The Board believes that Messrs. Potvin, Cohen, Geyer and Johnston are “independent” within the meaning of section 1.4 of Canadian National instrument 52-110 – *Audit Committees* (“**NI 52-110**”) and section 1.2 of NI 58-101. The Board believes that the four directors are free from any interest and any business or other relationship that could, or could reasonably be perceived, to materially interfere with their ability to act independently from management or to act as a director with a view to the best interests of the Company, other than interests and relationships arising from shareholdings.

Currently, the positions of Chairman of the Board and CEO are separate. The Board does not have a policy on whether these roles should be separate or combined, but believes that the most effective leadership model for the Company at this time is to have these roles separated. While the current Chairman of the Board is non-independent by virtue of being an executive chairman, he currently remains responsible for providing leadership to the Board. The Board retains flexibility to determine whether these roles should be separate or combined in one individual in the future.

Each of the Audit Committee and the Compensation Committee are comprised of independent directors and such committees also hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. The Nominating Committee is comprised of a majority of independent directors. While the Board has not adopted a written mandate, the Board has adopted the Gold Reserve Inc. Code of Conduct and Ethics which can be found at [www.goldreserveinc.com](http://www.goldreserveinc.com) under Investor Relations – Corporate Governance and is available in print to any Shareholder who requests it from the

Company by writing to us at Gold Reserve Inc., 999 W. Riverside Avenue, Suite 401, Spokane, WA 99201, Attn: Investor Relations.

Due to its current size, the Board does not currently provide an orientation and education program for specifically training new recruits to the Board. The Board does not provide a continuing education program for its directors. All directors are given direct access to management, which is encouraged to provide information on the Company and its business and affairs to directors. The Board believes that each of its directors maintain the skills and knowledge necessary to meet their obligations as directors.

### **Risk Oversight**

The various committees of the Board assist the Board in its responsibility for oversight of risk management. In particular, the Audit Committee focuses on major financial risk exposures, the steps management has taken to monitor and control such risks, and, if appropriate, discusses with the independent auditor the guidelines and policies governing the process by which senior management and the relevant departments of the Company assess and manage the Company's financial risk exposure and operational/strategic risk. The Company believes this arrangement maximizes the risk oversight benefit while providing for an appropriate leadership structure.

## **AUDIT COMMITTEE**

### **Audit Committee Charter**

The Audit Committee of the Board operates within a written mandate, as approved by the Board, which describes the Audit Committee's objectives and responsibilities. The full text of the Audit Committee Charter, as amended as of August 2014, is attached as Appendix A to this Circular.

### **Membership and Role of the Audit Committee**

The Audit Committee consists of Jean Charles Potvin (Chairman), James P. Geyer and James Michael Johnston. The Board has determined each member of the Audit Committee to be "independent" and "financially literate" as such terms are defined under Canadian securities laws. Further, each member of the Audit Committee satisfies the definition of "independent" director as established under the SEC rules. In addition, each member of the Audit Committee is financially literate and the Board has determined that Mr. Potvin qualifies as an audit committee "financial expert" as defined by SEC rules. The Board has made these determinations based on the education and experience of each member of the Audit Committee.

Mr. Potvin is Director and Chairman of Murchison Minerals Ltd. (formerly Flemish Gold Corp.) and Director and Chairman of the audit committee of Azimut Exploration Ltd., a publicly listed mineral exploration company. Mr. Potvin holds a Bachelor of Science degree in Geology from Carleton University and an MBA from the University of Ottawa. He spent nearly 14 years as a mining investment analyst for a large Canadian investment brokerage firm (Burns Fry Ltd., now BMO Nesbitt Burns Inc.). Mr. Potvin has been a member of the Audit Committee since August 2003.

Mr. Geyer has a Bachelor of Science in Mining Engineering from the Colorado School of Mines, has 41 years of experience in underground and open pit mining and has held engineering and operations positions with a number of companies including Amax Inc. and ASARCO LLC. Mr. Geyer is a former Director of Thompson Creek Metals Inc., where he was previously a member of the audit committee. Mr. Geyer has been a member of the Audit Committee since March 19, 2015.

Mr. Johnston co-founded Steelhead in late 1996 to form and manage the Steelhead Navigator Fund. Prior to that time, Mr. Johnston co-managed over \$5 billion in corporate bonds and also managed an equity portfolio in his role as senior vice president and senior portfolio manager at Loews Corporation. He began his investment career at Prudential Insurance as a high yield and investment-grade credit analyst. Mr.

Johnston was promoted to co-portfolio manager of an \$11 billion fixed income portfolio in 1991. He graduated with honors from Texas Christian University with a degree in finance and completed his MBA at the Johnson Graduate School of Business at Cornell University.

The Audit Committee met four times during 2019 at which attendance, in person or by phone, averaged 100%. The Audit Committee's principal functions are to assist the Board in fulfilling its oversight responsibilities, and to specifically review: (i) the integrity of the Company's financial statements; (ii) the independent auditor's qualifications and independence; (iii) the performance of the Company's system of internal audit function and the independent auditor; and (iv) compliance with laws and regulations, including disclosure controls and procedures.

The Audit Committee reviews the Company's financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements, the reporting process and maintaining an effective system of internal control over financial reporting. The Company's independent auditors are engaged to audit and express opinions on the conformity of the Company's financial statements to accounting principles generally accepted in the United States, and the effectiveness of its internal control over financial reporting.

### **External Auditor Service Fees**

Fees paid to the Company's independent external auditor, PricewaterhouseCoopers LLP, for the fiscal years ended December 31, 2019 and 2018 are detailed in the following table:

<b>Fee Category</b>	<b>Year Ended 2019</b>	<b>Year Ended 2018</b>
Audit Fees <sup>(1)</sup>	\$165,170	\$162,756
Audit Related Fees <sup>(2)</sup>	\$47,345	\$41,084
Tax Fees <sup>(3)</sup>	\$32,090	\$74,307
All Other Fees	-	-
<b>Total</b>	<b>\$244,605</b>	<b>\$278,147</b>

All fees for services performed by the Company's external auditors during 2019 were pre-approved by the Audit Committee.

- (1) Audit fees were for professional services rendered by PricewaterhouseCoopers LLP for the audit of the Company's annual financial statements.
- (2) Audit-related fees were for the review of the Company's quarterly financial statements and services provided in respect of other regulatory-required auditor attest functions associated with government audit reports, registration statements, prospectuses, periodic reports and other documents filed with securities regulatory authorities or other documents issued in connection with securities offerings.
- (3) Tax fees were for services outside of the audit scope and represented consultations for tax compliance and advisory services relating to common forms of domestic and international taxation.

### **Pre-approval Policies and Procedures**

The Audit Committee has adopted policies and procedures for the pre-approval of services performed by the Company's external auditors, with the objective of maintaining the independence of the external auditors. The Company's policy requires that the Audit Committee pre-approve all audit, audit-related, tax and other permissible non-audit services to be performed by the external auditors, including all engagements of the external auditors with respect to the Company's subsidiaries. Prior approval of engagements for services other than the annual audit may, as required, be approved by the Chair of the Audit Committee with the provision that such approvals be brought before the full Audit Committee at its next regular meeting. The Company's policy sets out the details of the permissible non-audit services consistent with the applicable Canadian independence standards for auditors. The CFO presents the details of any proposed assignments of the external auditor for consideration by the Audit Committee. The procedures do not include delegation of the Audit Committee's responsibilities to management of the Company.

### **EXECUTIVE COMMITTEE**

The Executive Committee is currently composed of the following three (3) directors:

Rockne J. Timm (Chair)  
James H. Coleman  
A. Douglas Belanger

The responsibility of the Executive Committee is to handle routine day-to-day business issues affecting the Company in between board meetings and to vet more important matters prior to presentation to the full Board for deliberation. The Executive Committee meets in person or by phone on an as needed basis.

### **NOMINATING COMMITTEE**

#### **Nominating Committee Charter**

The Nominating Committee of the Board operates within a written mandate, as approved by the Board, which describes the Nominating Committee's objectives and responsibilities. The full text of the Nominating Committee Charter is available on the Company's website, [www.goldreserveinc.com](http://www.goldreserveinc.com), under the Investor Relations – Governance section and is available in print to any Shareholder who requests it from the Company by writing to us at Gold Reserve Inc., 999 W. Riverside, Suite 401, Spokane, WA 99201, Attn: Investor Relations.

#### **Membership and Role of the Nominating Committee**

The Nominating Committee is currently composed of the following three (3) directors:

James H. Coleman (Chair)  
Robert A. Cohen  
Jean Charles Potvin

Pursuant to the written mandate of the Nominating Committee, as amended, a majority of the members of the Nominating Committee are required to be independent and the Board has determined that a majority of the members satisfy the definition of "independent" director as established under NI 58-101 (i.e. other than James H. Coleman).

The Nominating Committee assists the Board in fulfilling its responsibilities with respect to the composition of the Board, including recommending candidates for election or appointment as director of the Company.

In considering and identifying new candidates for Board nomination, the Board, where relevant, addresses succession and planning issues; identifies the mix of expertise and qualities required for the Board; assesses the attributes new directors should have for the appropriate mix to be maintained; arranges for each candidate to meet with the Board Chair and the CEO; recommends to the Board as a whole proposed nominee(s) and arranges for their introduction to as many Board members as practicable; and encourages diversity in the composition of the Board.

### **COMPENSATION COMMITTEE**

The Compensation Committee is currently composed of the following three (3) directors:

Jean Charles Potvin (Chair)  
James P. Geyer  
James Michael Johnston

For more information regarding the Compensation Committee, please see “*Compensation Discussion and Analysis – Compensation Committee*” above.

### **LEGAL COMMITTEE**

The Legal Committee of the Board was created to review and monitor the Company’s legal position in respect of Board matters, matters related to enforcement of the Award, matters related to the Settlement Agreement and ancillary matters, matters related to Siembra Minera and the Barbados Subsidiaries, and all other legal matters arising out of the business of the Company, as well as liaising with legal counsel.

The Legal Committee is currently composed of the following three (3) directors:

Robert A. Cohen (Chair)  
James H. Coleman  
Rockne J. Timm

### **MINING COMMITTEE**

The Mining Committee of the Board was created to review and monitor all mining activities related to the Barbados Subsidiaries and Siembra Minera and acting as an intermediary between the interactions between the Barbados Subsidiaries and the Board.

The Mining Committee is currently composed of the following three (3) directors:

James P. Geyer (Chair)  
Jean Charles Potvin  
A. Douglas Belanger

### FINANCIAL MARKETS COMMITTEE

The Financial Markets Committee of the Board was created to evaluate the Company's external financial obligations with respect to debt and/or equity issues and to evaluate and review: the listing status of the Company's securities; the Company's public and investment market disclosure; and the Company's relationships with investment banks and mining analysts as well as the Shareholders.

The Financial Markets Committee is currently composed of the following two (2) directors:

Jean Charles Potvin (Chair)

A. Douglas Belanger

### BARBADOS COMMITTEE

The Barbados Committee of the Board was created to review and monitor the activities of the Barbados Subsidiaries and related transactions and activities with Siembra Minera.

The Barbados Committee is currently composed of the following two (2) directors:

A. Douglas Belanger (Chair)

James H. Coleman

### SPECIAL COMMITTEE

On June 4, 2020, the Board created a special committee of its members (the "**Special Committee**"), for the purposes of making all decisions and taking all actions for and on behalf of the Board and the Company, and so binding the Company with respect to all matters related to or arising from the business of the Company, that are not permitted to be done by "US Persons" (as defined in 31 C.F.R. § 591.312) pursuant primarily to Executive Orders 13884 and 13850 ("**US Sanctions**"). This is part of the Company's efforts to ensure compliance with applicable laws, including, without limitation, US Sanctions, the *Special Economic Measures (Venezuela) Regulations* enacted pursuant to the *Special Economic Measures Act* and the Justice for Victims of Corrupt Foreign Officials Regulations of the *Justice for Victims of Corrupt Foreign Officials Act*. The Special Committee will also ensure that the Company's actions that it directs are in compliance with applicable laws.

The members of the Special Committee have received no compensation for their activities as such.

The Special Committee is currently comprised of the following two (2) directors, neither of whom are US Persons:

James H. Coleman

Jean Charles Potvin

Assuming Ambassador Gagnon is elected to the Board at the Meeting, it is intended that he would replace Mr. Potvin as a member of the Special Committee. Ambassador Gagnon is not a US Person. However, because of Mr. Potvin's long history with the Company and the importance of the Special Committee, it is expected that the Special Committee will engage Mr. Potvin to provide consulting services to the Company by advising the Special Committee. It is expected that Mr. Potvin will be compensated for such services.

### ADDITIONAL INFORMATION

Applicable Canadian securities laws require listed corporations to disclose their approach to corporate governance. The Company's disclosure in this regard is set out in Appendix B to this Circular.



### **COMMUNICATION WITH BOARD MEMBERS**

Any Shareholder or other interested party that desires to communicate with the Board or any of its specific members, including the chairman or the non-management directors as a group, should send their communication to the Secretary, Gold Reserve Inc., 999 W. Riverside Avenue, Suite 401, Spokane, Washington 99201. All such communications will be forwarded to the appropriate members of the Board.

### **INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON**

No proposed nominee for election as a director of the Company and no person who has been a director or senior officer of the Company at any time since the beginning of the last financial year, nor any associate or affiliate of any of the foregoing, has any material interest, directly or indirectly, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon.

### **INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

No informed person or any proposed director of the Company, or any of the associates or affiliates of those persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any transaction since the commencement of the Company's most recently completed financial year or in any proposed transaction which has, in either case, materially affected or would materially affect the Company or any of its subsidiaries.

For the purposes of the above, "informed person" means: (a) a director or executive officer of the Company; (b) a director or executive officer of a person or company that is itself an informed person or subsidiary of the Company; (c) any person or company who beneficially owns, or controls or directs, directly or indirectly, voting securities of the Company or a combination of both carrying more than 10% of the voting rights attached to all outstanding voting securities of the Company other than voting securities held by the person or company as underwriter in the course of a distribution; and (d) the Company after having purchased, redeemed or otherwise acquired any of its securities, for so long as it holds any of its securities.

### **ANY OTHER MATTERS**

Management of the Company knows of no other matters to come before the Meeting other than those referred to in the Notice of Annual General and Special Meeting of Shareholders accompanying this Circular. However, if any other matters properly come before the Meeting, it is the intention of the persons named in the form of proxy accompanying this Circular to vote the same in accordance with their best judgment of such matters.

### **ADDITIONAL INFORMATION**

Additional information about the Company may be found on the SEDAR website at [www.sedar.com](http://www.sedar.com), on the SEC's website at [www.sec.gov](http://www.sec.gov) and on the Company's website at [www.goldreserveinc.com](http://www.goldreserveinc.com). Additional financial information is provided in the Company's comparative annual financial statements and management's discussion and analysis for its year ended December 31, 2019, as contained in the 2019

Annual Report on Form 40-F filed with the SEC on April 9, 2020. A copy of this document and other public documents of the Company are available upon request to:

Gold Reserve Inc.  
Attention: Robert A. McGuinness  
999 W. Riverside Avenue, Suite 401  
Spokane, Washington 99201  
Phone: (509) 623-1500  
Fax: (509) 623-1634

#### **APPROVAL AND CERTIFICATION**

The contents and the sending of this Circular have been approved by the Board.

Dated at Spokane, Washington this 28<sup>th</sup> day of July, 2020.

(signed) “*Rockne J. Timm*”  
Rockne J. Timm  
Chief Executive Officer

(signed) “*Robert A. McGuinness*”  
Robert A. McGuinness  
Vice President Finance and Chief Financial Officer

## APPENDIX A

### GOLD RESERVE INC. (the “Company”) CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS (the “Board”) As Amended and Restated August 2014

#### **Purpose**

The primary purposes of the Audit Committee (the “**Committee**”) are to assist the Board in fulfilling its oversight responsibilities and to oversee, on behalf of the Board, the Company’s accounting and financial reporting and internal control processes, financial statements and information, and compliance with regulatory requirements associated with such financial statements and information. More specifically, the purpose of the Committee is to satisfy itself that:

- the Company’s annual financial statements are fairly presented in accordance with generally accepted accounting principles and to recommend to the Board whether the annual financial statements should be approved;
- the information contained in the Company’s quarterly financial statements, annual report to shareholders and other financial publications, such as management’s discussion and analysis (“**MD&A**”), is complete and accurate in all material respects and to approve these materials;
- the Company has appropriate systems of internal control over the safeguarding of assets and financial reporting to ensure compliance with legal and regulatory requirements; and
- the internal and external audit functions have been effectively carried out and that any matter that the internal or the independent auditors wish to bring to the attention of the Board has been addressed. The Committee will also recommend to the Board the re-appointment or appointment of auditors and their remuneration.

The Committee’s function is one of oversight only and does not relieve management of its responsibilities for preparing financial statements that accurately and fairly present the Company’s financial results and condition, nor the independent auditors of their responsibilities relating to the audit or review of financial statements.

#### **Organization**

The Committee shall consist of at least three directors. The Board shall designate a Committee member as the chairperson of the Committee, or if the Board does not do so, the Committee members shall appoint a Committee member as chairperson by a majority vote of the authorized number of Committee members. The Chair shall be an “audit committee financial expert” as defined by securities laws applicable to the Company.

All Committee members shall be “independent,” as that term is defined under securities laws applicable to the Company. Furthermore, each Committee member shall be able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.

The Board may replace, remove and appoint Committee members at any time and any Committee member who ceases to be a director of the Company shall immediately cease to be a member of the Committee. Committee members shall serve for such terms as may be fixed by the Board, and in any case, at the will of the Board whether or not a specific term is fixed.

### **Independent Auditors and Their Services**

The Committee shall recommend to the Board the nomination, compensation, retention, termination and evaluation, and shall be directly responsible for overseeing the work, of the independent auditors engaged by the Company for the purposes of preparing or issuing an auditor's report or related work or performing other audit, review or attest services for the Company. The independent auditors shall report directly to the Committee. The Committee's authority includes the resolution of disagreements between management and the auditors regarding financial reporting.

The Committee shall pre-approve all audit, review, attest and permissible non-audit services to be provided to the Company or its subsidiaries by the independent auditors. The Chair may independently approve normal course services provided by the independent auditor with ratification and approval by the full committee at the next quarterly committee meeting. The Committee shall obtain and review, at least annually, a report by the independent auditors describing:

- the firm's internal quality-control procedures; and
- any material issue raised by the most recent internal quality-control review, or peer review, of the auditing firm or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

In addition, the Committee's annual review of the independent auditors' qualifications shall also include the review and evaluation of the lead partner of the independent auditors for the Company's account, and evaluation of such other matters as the Committee may consider relevant to the engagement of the auditors, including views of company management and internal finance employees, and whether the lead partner or auditing firm itself should be rotated.

### **Annual Financial Reporting**

As often and to the extent the Committee deems necessary or appropriate, but at least annually in connection with the audit of each fiscal year's financial statements, the Committee shall:

1. Review and discuss with appropriate members of management the annual audited financial statements, related accounting and auditing principles and practices, and (when required of management under securities laws applicable to the Company and stock exchange requirements on which the Company's common shares are listed, as applicable) management's assessment of internal control over financial reporting and recommend to the Board whether such annual financial statements should be approved.
2. Timely request and receive from the independent auditors, the report (along with any required update thereto), to the extent such report is required by securities laws applicable to the Company and stock exchange requirements on which the Company's common shares are listed, as applicable, prior to the filing of an audit report, concerning:
  - all critical accounting policies and practices to be used;

- all alternative treatments of financial information within generally accepted accounting principles for policies and practices relating to material items that have been discussed with company management, including ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditors; and
  - other material written communications between the independent auditors and company management, such as any management letter or schedule of unadjusted differences.
3. Discuss with the independent auditors the matters required to be discussed by AICPA Statement on Auditing Standards No. 61, including such matters as:
    - the quality and acceptability of the accounting principles applied in the financial statements;
    - new or changed accounting policies, and significant estimates, judgments, uncertainties or unusual transactions;
    - the selection, application and effects of critical accounting policies and estimates applied by the Company;
    - issues raised by any “management” or “internal control” letter from the auditors, problems or difficulties encountered in the audit (including any restrictions on the scope of the work or on access to requested information) and management’s response to such problems or difficulties, significant disagreements with management, or other significant aspects of the audit; and
    - any off-balance sheet transactions, and relationships with any unconsolidated entities or any other persons, which may have a material current or future effect on the financial condition or results of the Company and as may be required to be reported under securities laws applicable to the Company and stock exchange requirements on which the Company’s common shares are listed, as applicable.
  4. Review and discuss with appropriate members of management the Company’s annual MD&A (or equivalent disclosures) and annual profit or loss press releases prior to their public disclosure and recommend to the Board whether such annual MD&A should be approved.
  5. Receive from the independent auditors a formal written statement of all relationships between the auditors and the Company consistent with Independence Standards Board Standard No. 1.
  6. Actively discuss with the independent auditors any disclosed relationships or services that may impact their objectivity and independence, and take any other appropriate action to oversee their independence.

### **Quarterly Financial Reporting**

The Committee shall:

1. Review and discuss with appropriate members of management the quarterly financial statements of the Company, the results of the independent auditors’ review of these financial statements and interim profit and loss press releases prior to their public disclosure.
2. Review and discuss with Company management and, if appropriate, the independent auditors, significant matters relating to:
  - the quality and acceptability of the accounting principles applied in the financial statements;
  - new or changed accounting policies, and significant estimates, judgments, uncertainties or unusual transactions;

- the selection, application and effects of critical accounting policies and estimates applied by the Company; and
  - any off-balance sheet transactions and relationships with any unconsolidated entities or any other persons which may have a material current or future effect on the financial condition or results of the Company and are required to be reported under securities laws applicable to the Company or stock exchange requirements on which the Company's common shares are listed, as applicable.
3. Review and discuss with appropriate members of management the Company's interim MD&A (or equivalent disclosures) and interim profit or loss press releases prior to their public disclosure and recommend to the Board whether such interim MD&A should be approved.

### **Other Functions**

The Committee shall review and assess the adequacy of this charter annually, recommend any proposed changes to the full Board and, to the extent required, certify to any applicable securities regulator and stock exchange on which the Company's common shares are listed, if applicable, that the Committee reviewed and assessed the adequacy of the charter.

The Committee shall discuss with management "financial results" press releases (including the type and presentation of information to be included, paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information), and financial information and guidance or other forward-looking financial information provided to analysts and rating agencies or otherwise publicly disclosed. This may be conducted generally as to types of information and presentations, and need not include advance review of each release or other information or guidance.

The Committee, to the extent it deems necessary or appropriate, shall periodically review with management the Company's disclosure controls and procedures, internal control over financial reporting and systems and procedures to promote compliance with applicable laws and regulatory requirements, as applicable, and the Committee shall ensure that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure referred to above with respect to annual and quarterly financial statements; and periodically assess the adequacy of such procedures.

The Committee shall periodically:

- inquire of management and the independent auditors about the Company's major financial risks or exposures;
- discuss the risks and exposures and assess the steps management has taken to monitor and control the risks and exposures; and
- discuss guidelines and policies with respect to risk assessment and risk management.

The Committee shall conduct any activities relating to the Company's code(s) of conduct and ethics as may be delegated, from time to time, to the Committee by the Board.

The Committee shall establish and maintain procedures for:

- the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
- the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

If the Committee so determines, the confidential, anonymous submission procedures may also include a method for interested parties to communicate directly with non-management directors.

The Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company in compliance with the requirements set out in section 2.4 of Canadian National Instrument 52-110 – *Audit Committees*.

The Committee shall review and take appropriate action with respect to any reports to the Committee from internal or external legal counsel engaged by the Company concerning any material violation of securities law or breach of fiduciary duty or similar violation by the Company, its subsidiaries or any person acting on their behalf.

The Committee shall, from time to time as necessary, review the effect of regulatory and accounting initiatives on the financial statements of the Company. In addition, the Committee, as it considers appropriate, may consider and review with the full Board, company management, internal or external legal counsel, the independent auditors or any other appropriate person any other topics relating to the purposes of the Committee which may come to the Committee's attention.

The Committee may perform any other activities consistent with this charter, the Company's corporate governance documents and securities laws applicable to the Company and stock exchange requirements on which the Company's common shares are listed as the Committee or the Board considers appropriate.

### **Meetings, Reports and Resources**

The Committee shall meet as often as it determines is necessary, but not less than quarterly. The Committee shall meet separately with management and the independent auditors, as the Committee deems necessary. In addition, the Committee may meet with any other persons, as it deems necessary.

The Committee may establish its own procedures, including the formation and delegation of authority to subcommittees, in a manner not inconsistent with this charter, the Company's constating documents or applicable corporate and securities laws and stock exchange requirements on which the Company's common shares are listed, as applicable. The chairperson or a majority of the Committee members may call meetings of the Committee. A majority of the authorized number of Committee members shall constitute a quorum for the transaction of Committee business, and the vote of a majority of the Committee members present at a meeting at which a quorum is present shall be the act of the Committee, unless in either case a greater number is required by this charter, the Company's constating documents or securities laws applicable to the Company or stock exchange requirements on which the Company's common shares are listed, as applicable. The Committee shall keep written minutes of its meetings and deliver copies of the minutes to the corporate secretary for inclusion in the Company's corporate records.

If required by securities laws applicable to the Company or stock exchange requirements on which the Company's common shares are listed, the Committee shall prepare any audit committee report to be included in the Company's annual management information circular, and report to the Board on the other matters relating to the Committee or its purposes. The Committee shall also report to the Board annually the overall results of its annual review of the independent auditors' qualifications, performance and independence. The Committee shall also report to the Board on the major items covered by the Committee at each Committee meeting, and provide additional reports to the Board as the Committee may determine to be appropriate, including review with the full Board of any issues that arise from time to time with respect to the quality or integrity of the Company's annual and quarterly financial statements and other publicly disclosed financial information, the Company's compliance with legal or regulatory requirements, the performance and independence of the independent auditors.

The Committee is at all times authorized to have direct, independent and confidential access to the independent auditors and to the Company's other directors, management and personnel to carry out the Committee's purposes. The Committee is authorized to conduct or authorize investigations into any matters relating to the purposes, duties or responsibilities of the Committee.

As the Committee deems necessary to carry out its duties, it is authorized to select, engage (including approval of the fees and terms of engagement), oversee, terminate, and obtain advice and assistance from outside legal, accounting, or other advisers or consultants. The Company shall provide for appropriate funding, as determined by the Committee and recommended to the Board, for payment of:

- compensation to the independent auditors for their audit and audit-related, review and attest services;
- compensation to any advisers engaged by the Committee; and
- ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

Nothing in this charter is intended to preclude or impair the protection that may be provided under applicable law for good faith reliance by members of the Committee on reports or other information provided by others.



## APPENDIX B

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

This Appendix describes the Company's corporate governance practices as required by Canadian National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("NI 58-101") having regard to Canadian National Policy 58-201 – *Corporate Governance Guidelines* ("NP 58-201") which provides guidance on corporate governance practices. The Board has reviewed this disclosure of the Company's corporate governance practices.

Disclosure Requirement under Form 58-101F2	Company's Governance Practices
1. (i) Disclose the identity of directors who are independent.	The Board of Directors (the " <b>Board</b> ") of the Company believes that Messrs. Cohen, Geyer, Potvin and Johnston are "independent" within the meaning of section 1.4 of Canadian National instrument 52-110 – <i>Audit Committees</i> ("NI 52-110") and section 1.2 of NI 58-101, as none of them is, or has been within the last three years, an executive officer or employee of the Company or party to any material contract with the Company and none of them receive remuneration from the Company in excess of directors' fees and grants of stock options. The Board believes that the four directors are free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with their ability to act independently from management or to act as a director with a view to the best interests of the Company, other than interests and relationships arising from shareholdings.
(ii) Disclose the identity of directors who are not independent, and describe the basis for that determination.	Three directors, Messrs. Coleman, Timm, and Belanger, are employees of the Company and therefore not considered independent.

Disclosure Requirement under Form 58-101F2	Company's Governance Practices
2. If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.	Such other directorships have been disclosed in "Business of the Meeting – Item 1 – Election of Directors" section of this Circular.
3. Describe what steps, if any, the board takes to orient new board members, and describe any measures the board takes to provide continuing education for directors.	<p>Due to its current size, the Board does not currently provide an orientation and education program for specifically training new recruits to the Board.</p> <p>The Board does not provide a continuing education program for its directors. All directors are given direct access to management, which is encouraged to provide information on the Company and its business and affairs to directors. The Board believes that each of its directors maintain the skills and knowledge necessary to meet their obligations as directors.</p>
4. Describe what steps, if any, the board takes to encourage and promote a culture of ethical business conduct.	<p>The Board has adopted the Gold Reserve Inc. Code of Conduct and Ethics (the "<b>Code</b>"), which can be found at <a href="http://www.goldreserveinc.com">www.goldreserveinc.com</a> and is available in print to any Shareholder who requests it.</p> <p>All Company employees, including officers, and directors are expected to use sound judgment to help maintain appropriate compliance procedures and to carry out the Company's business with honesty and in compliance with laws and high ethical standards. Each employee and director are expected to read the Code and demonstrate personal commitment to the standards set forth in the Code.</p>
5. (i) Disclose what steps, if any, are taken to identify new candidates for board nomination, including who identifies new candidates.	The Nominating Committee assists the Board in fulfilling its responsibilities with respect to the composition of the Board, including recommending

Disclosure Requirement under Form 58-101F2	Company's Governance Practices
(ii) Disclose the process of identifying new candidates.	<p>candidates for election or appointment as director of the Company.</p> <p>In considering and identifying new candidates for Board nomination, the Board, where relevant:</p> <ul style="list-style-type: none"> <li>(a) addresses succession and planning issues;</li> <li>(b) identifies the mix of expertise and qualities required for the Board;</li> <li>(c) assesses the attributes new directors should have for the appropriate mix to be maintained;</li> <li>(d) arranges for each candidate to meet with the Board Chair and the CEO;</li> <li>(e) recommends to the Board as a whole proposed nominee(s) and arranges for their introduction to as many Board members as practicable; and</li> <li>(f) encourages diversity in the composition of the Board.</li> </ul>
6. (i) Disclose what steps, if any, are taken to determine compensation for the directors and CEO, including who determines compensation.	<p>The Board reviews from time to time the compensation paid to directors and NEOs in order to ensure that they are being adequately compensated for the duties performed and the obligations they assume. The Board as a whole is responsible for determining the compensation paid to the directors.</p>
(ii) Disclose the process of determining compensation.	<p>The Board considers evaluations submitted by the Compensation Committee evaluating the Company's performance and the performance of its executive officers, and ratifies the cash and equity-based compensation of such executive officers approved by the Compensation Committee.</p>
7. If the board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.	<p>The Executive Committee, which is comprised of Messrs. Coleman, Timm and Belanger, meets in person or by phone on a regular basis. Messrs. Coleman, Timm and Belanger are not</p>

Disclosure Requirement under Form 58-101F2	Company's Governance Practices
	<p>considered independent directors within the definition in NI 52-110.</p> <p>The Executive Committee facilitates the Company's activities from an administrative perspective, but does not supplant the full Board in the consideration of significant issues facing the Company.</p> <p>The Legal Committee, which is comprised of Messrs. Coleman, Cohen and Timm, was created to review and monitor the Company's legal position in respect of Board matters, matters related to enforcement of the Award, matters related to the Settlement Agreement and ancillary matters, matters related to Siembra Minera and the Barbados Subsidiaries, and all other legal matters arising out of the business of the Company, as well as liaising with legal counsel.</p> <p>The Mining Committee, which is comprised of Messrs. Geyer, Potvin and Belanger, was created to review and monitor all mining activities related to the Barbados Subsidiaries and Siembra Minera and acting as an intermediary between the interactions between the Barbados Subsidiaries and the Board.</p> <p>The Financial Markets Committee, which is currently comprised of Messrs. Potvin and Belanger, was created to evaluate the Company's external financial obligations with respect to debt and/or equity issues and to evaluate and review: the listing status of the Company's securities; the Company's public and investment market disclosure; and the Company's relationships with investment banks and mining analysts as well as the Shareholders.</p> <p>The Barbados Committee, which is comprised of Messrs. Belanger and Coleman, was created to review and monitor the activities of the Barbados</p>

<p><b>Disclosure Requirement under Form 58-101F2</b></p>	<p><b>Company's Governance Practices</b></p>
	<p>Subsidiaries and related transactions and activities with Siembra Minera.</p> <p>The Special Committee, which is comprised of Messrs. Coleman and Potvin, was created to conduct the Company's business, in compliance with all applicable laws, which may not be conducted by US Persons with respect to its dealings with the Government of Venezuela, Siembra Minera and the collection of the 2016 settlement agreement entered into between the Company and the Government of Venezuela in respect of the 2014 arbitration award received by the Company under the Additional Facility Rules of the International Centre for the Settlement of Investment Disputes.</p> <p>In the event that Ambassador Gagnon is elected to the Board, it is expected that he will be appointed as a member of the Special Committee and Mr. Potvin will be retained as a consultant to the Company to advise the Special Committee.</p>
<p>8. Disclose what steps, if any, that the board takes to satisfy itself that the board, its committees, and its individual directors are performing effectively.</p>	<p>Due to its current size, the Board does not currently have a separate committee for assessing the effectiveness of the Board as a whole, the committees of the Board, or the contribution of individual directors. The Board, as a whole, bear these responsibilities.</p> <p>The Board chair meets annually with each director individually to discuss personal contributions and overall Board effectiveness.</p>

# IDENTIFICATION C TO THE CROSS- EXAMINATION OF S. REID

**Conte, Stephanie**

---

**From:** Renner, Natalie  
**Sent:** June 17, 2021 5:24 PM  
**To:** Maria Konyukhova; David Byers  
**Cc:** Schwill, Robin; Littlejohn, Maureen  
**Subject:** Crystallex Case Conference Brief  
**Attachments:** Crystallex Case Conference Brief - June 23, 2021.pdf

Hi Maria,

Please find attached the Case Conference Brief of the Company. The attached is being provided to the Monitor on a strictly confidential basis to be forwarded directly to Justice Hainey. This brief is confidential and should not form part of the public record.

Please provide our brief to Goodmans and Cassels on the same confidential basis, and to their clients on the basis that each of their clients confirm first in writing to their counsel that it will treat the brief as strictly confidential and not disclose or disseminate it, or discuss it outside of counsel and those members of the Ad Hoc Committee who have provided the same confirmation.

Thanks  
Natalie

# IDENTIFICATION D TO THE CROSS- EXAMINATION OF S. REID



**Fetila Fasie, Julia**

---

**From:** Ples, Danielle  
**Sent:** June 28, 2021 12:57 PM  
**To:** pruby@goodmans.ca; carmstrong@goodmans.ca  
**Cc:** 'dbyers@stikeman.com'; 'mkonyukhova@stikeman.com'; 'brian.m.denega@ca.ey.com'; Fiona Han; tpinos@casselsbrock.com; 'skukulowicz@casselsbrock.com'; 'rjacobs@casselsbrock.com'; Renner, Natalie  
**Subject:** Crystallex International Inc.  
**Attachments:** Letter to Goodmans.pdf; Pages from KRY - MOTION RECORD.pdf  
  
**Follow Up Flag:** Follow up  
**Flag Status:** Flagged  
  
**ProfileOnSend:** 1

*Sent on behalf of Natalie Renner*

Good afternoon – please find attached correspondence and accompanying enclosure from Natalie Renner. Thank you.

Danielle Ples  
Assistant to Natalie Renner

**DAVIES**155 Wellington Street West  
Toronto, ON M5V 3J7 Canada

dwpv.com

Natalie Renner  
T 416.367.7489  
nrenner@dwpv.com

File 246577

June 28, 2021

**CONFIDENTIAL****BY EMAIL**Goodmans LLP  
Bay Adelaide Centre  
333 Bay Street, Suite 3400  
Toronto, ON M5H 2S7**Attention: Peter Ruby and Chris Armstrong**

Dear Sirs:

**Crystallex International Inc. ("Crystallex" or the "Company")**

In accordance with the endorsement of Justice Newbould made June 7, 2016, we write to provide you with the position of the Company on the unfiled "cross-motion" of the Ad Hoc Committee of Unsecured Noteholders.

REDACTED

Tor#: 10196729.2

DAVIES WARD PHILLIPS &amp; VINEBERG LLP

DAVIES

REDACTED

Could you please let us know your position on this issue as soon as possible.

Thanks.



Natalie Renner

Attachment

cc David Byers and Maria Konyukhova, *Stikeman Elliot LLP*  
Brian Denega and Fiona Han, *Ernst & Young*  
Timothy Pinos, Shayne Kukulowicz and Ryan Jacobs, *Cassels Brock & Blackwell LLP*

# IDENTIFICATION E TO THE CROSS- EXAMINATION OF S. REID

**Fetila Fasie, Julia**

---

**From:** Renner, Natalie  
**Sent:** July 23, 2021 12:04 PM  
**To:** Renner, Natalie  
**Subject:** FW: RE: Crystallex International Inc.

---

**From:** Armstrong, Christopher [mailto:carmstrong@goodmans.ca]  
**Sent:** July 6, 2021 10:59 AM  
**Subject:** RE: Crystallex International Inc.

External Email / Courriel externe

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Hi Natalie,

I write in reply to your letter of June 28, 2021. Our clients do not agree with Crystallex's assessment and will not agree to redact publically available information from their cross-motion materials. Per your advice that Crystallex does not oppose the filing of our clients' unredacted cross-motion materials we will proceed to serve those materials on the CCAA service list and file them with the Court.

Regards,

Chris

\*\*\*\*\* Attention \*\*\*\*\*

This communication is intended solely for the named addressee(s) and may contain information that is privileged, confidential, protected or otherwise exempt from disclosure. No waiver of confidence, privilege, protection or otherwise is made. If you are not the intended recipient of this communication, or wish to unsubscribe, please advise us immediately at [privacyofficer@goodmans.ca](mailto:privacyofficer@goodmans.ca) and delete this email without reading, copying or forwarding it to anyone. Goodmans LLP, 333 Bay Street, Suite 3400, Toronto, ON, M5H 2S7, [www.goodmans.ca](http://www.goodmans.ca). You may unsubscribe to certain communications by clicking [here](#).

---

**Chris Armstrong**  
 Goodmans LLP

416.849.6013  
[carmstrong@goodmans.ca](mailto:carmstrong@goodmans.ca)  
[goodmans.ca](http://goodmans.ca)

---

**From:** Ples, Danielle <DPles@dwvp.com>  
**Sent:** Monday, June 28, 2021 12:57 PM  
**To:** Ruby, Peter <pruby@goodmans.ca>; Armstrong, Christopher <carmstrong@goodmans.ca>  
**Cc:** 'dbyers@stikeman.com' <dbyers@stikeman.com>; 'mkonyukhova@stikeman.com' <mkonyukhova@stikeman.com>; 'brian.m.denega@ca.ey.com' <brian.m.denega@ca.ey.com>; Fiona Han <Fiona.Han@parthenon.ey.com>; tpinos@casselsbrock.com; 'skukulowicz@casselsbrock.com' <skukulowicz@casselsbrock.com>;

'rjacobs@casselsbrock.com' <rjacobs@casselsbrock.com>; Renner, Natalie <nrenner@dwpv.com>

**Subject:** Crystallex International Inc.

*Sent on behalf of Natalie Renner*

Good afternoon – please find attached correspondence and accompanying enclosure from Natalie Renner. Thank you.

Danielle Ples  
Assistant to Natalie Renner

**Danielle Ples**  
Legal Assistant  
T 416.863.0900 Ext 822294  
[dples@dwpv.com](mailto:dples@dwpv.com)

---

## DAVIES

155 Wellington Street West  
Toronto, ON M5V 3J7  
[dwpv.com](http://dwpv.com)

DAVIES WARD PHILLIPS & VINEBERG LLP

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# IDENTIFICATION F TO THE CROSS- EXAMINATION OF S. REID

**Fetila Fasie, Julia**

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**From:** Prosa, Sandy  
**Sent:** October 29, 2020 12:27 PM  
**To:** dbyers@stikeman.com; mkonyukhova@stikeman.com; lmercerc@stikeman.com; rchadwick@goodmans.ca; carmstrong@goodmans.ca; Mark, Alan; jporter@tgf.ca; pgleeson@gleesonlegal.com; kalexander@kbalaw.ca; skukulowicz@casselsbrock.com; rjacobs@casselsbrock.com; jdietrich@casselsbrock.com; mwunder@casselsbrock.com; brian.m.denega@ca.ey.com; fiona.Han@ca.ey.com; david.cohen@gowlings.com; clifton.prophet@gowlings.com; nicholas.kluge@gowlings.com; lbrzezinski@blaney.com; acobb@osler.com; akauffman@fasken.com  
**Cc:** Renner, Natalie; Schwill, Robin; Littlejohn, Maureen  
**Subject:** CCAA Stay Extension — Crystallex (Court File No. CV-11-9532-00CL) - November 3, 2020 Motion  
**Attachments:** FINAL PUBLIC MOTION RECORD - November 3, 2020\_Redacted.pdf

Please find attached the Public Motion Record of Crystallex International Corp. for the stay extension motion returnable November 3, 2020 at 9:30 am, served upon you in accordance with the Rules of Civil Procedure. The motion will be held by Zoom.



# IDENTIFICATION G TO THE CROSS- EXAMINATION OF S. REID

**Fetila Fasie, Julia**

---

**From:** Ruby, Peter <pruby@goodmans.ca>  
**Sent:** June 25, 2021 6:03 PM  
**To:** Littlejohn, Maureen  
**Cc:** Maria Konyukhova; Pinos, Timothy  
**Subject:** RE: Crystallex - Scheduling and Evidence

External Email / Courriel externe

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I now have an answer for you.

We do not understand why the public version was not provided with or immediately after the allegedly confidential version. The unredacted portions of Mr. Fung's affidavit could not possibly have generated any concern about confidentiality. Nor could the unredacted text have reasonably been expected to yield additional responding evidence from the Noteholders, so your June 24 email seems tactical. You write below that your client provide its public version of its motion record "to give [the Noteholders] an opportunity to respond to the substance of Mr. Fung's evidence". However, you actually redacted the substance of Mr. Fung's affidavit, giving Mr. Reid nothing to which to respond. So we are all still on the agreed schedule.

Wishes for a good weekend to you too,

Peter

---

**From:** Littlejohn, Maureen <MLittlejohn@dwvpv.com>  
**Sent:** Friday, June 25, 2021 4:39 PM  
**To:** Ruby, Peter <pruby@goodmans.ca>; Pinos, Timothy <tpinos@cassels.com>; Maria Konyukhova <MKonyukhova@stikeman.com>  
**Subject:** RE: Crystallex - Scheduling and Evidence

Hi Peter,

If you don't intend to file anything further notwithstanding having received a public version of the Fung Affidavit, then I agree that we don't need to debate the point. The objective was not to interfere with the current schedule, but rather to give your client an opportunity to respond to the substance of Mr. Fung's evidence if it wanted to do so, without prejudicing Crystallex's right of reply. Again, I see no reason why this should impact cross-exam dates (or the dates that follow) in any event. I look forward to hearing from you on Monday regarding this issue.

In the interim, wishing you all a great weekend.

Best regards,  
 Maureen

---

**From:** Ruby, Peter [<mailto:pruby@goodmans.ca>]  
**Sent:** June 25, 2021 1:59 PM  
**To:** Littlejohn, Maureen <MLittlejohn@dwvpv.com>; Pinos, Timothy <tpinos@cassels.com>; Maria Konyukhova <MKonyukhova@stikeman.com>  
**Subject:** RE: Crystallex - Scheduling and Evidence

External Email / Courriel externe

I have unexpectedly been tied up for the last 48 hours and am now working through my unanswered emails.

I will get back to you about our position, probably on Monday, but given how long it took Crystallex to provide a public version of its motion record, we expect the agreed timetable to be honoured, period. That said, the redactions from the public version are extensive and it may be that this is a point we need not argue about.

\*\*\*\*\* Attention \*\*\*\*\*

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**From:** Littlejohn, Maureen <[MLittlejohn@dwvpv.com](mailto:MLittlejohn@dwvpv.com)>

**Sent:** Thursday, June 24, 2021 8:13 PM

**To:** Ruby, Peter <[pruby@goodmans.ca](mailto:pruby@goodmans.ca)>; Pinos, Timothy <[tpinos@cassels.com](mailto:tpinos@cassels.com)>; Maria Konyukhova <[MKonyukhova@stikeman.com](mailto:MKonyukhova@stikeman.com)>

**Subject:** RE: Crystallex - Scheduling and Evidence

Peter,

I haven't yet heard from you regarding my emails below, and specifically the question of whether your clients intend to either supplement or replace the existing Affidavit of Scott Reid in light of the fact that Mr. Reid is now able to review a public version of the Fung Affidavit filed in connection with our motion. To the extent that your client intends to do so, please let me know as soon as possible. Subject to the below, we have no objection to you filing further or replacement evidence of Scott Reid in light of the fact that he only recently became able to review a redacted version of the Fung Affidavit.

However, to be clear:

- We are not consenting (and will object) to your client attempting to supplement Mr. Reid's evidence in response to Mr. Fung's May 21, 2021 Affidavit after our July 9, 2021 deadline for reply evidence has passed, including through the use of your reply evidence on the cross motion (which is due after our July 9 reply evidence on the sealing motion is due); and
- To the extent that you do supplement or replace Mr. Reid's evidence now in light of his recent access to Mr. Fung's redacted Affidavit, we will need to revise the date on which the Company's Reply evidence is to be delivered to reflect the delivery of this further evidence to which the Company will be replying.

If we can deal with this issue expeditiously there should be no reason to interfere with the August cross-examination dates. However, I want to make sure that our position on this is clear.

Please let me know how you intend to proceed. I'd be happy to discuss on a call if that would assist.

Thanks and best regards,  
Maureen

**Maureen Littlejohn** | [Bio](#) | [vCard](#)  
T 416.367.6916  
[mlittlejohn@dwvpv.com](mailto:mlittlejohn@dwvpv.com)

**DAVIES**

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 Toronto, ON M5V 3J7  
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**From:** Littlejohn, Maureen  
**Sent:** June 23, 2021 3:48 PM  
**To:** 'Ruby, Peter' <[pruby@goodmans.ca](mailto:pruby@goodmans.ca)>; 'Pinos, Timothy' <[tpinos@cassels.com](mailto:tpinos@cassels.com)>; 'Maria Konyukhova' <[MKonyukhova@stikeman.com](mailto:MKonyukhova@stikeman.com)>  
**Subject:** FW: Crystallex - Scheduling and Evidence

Hi Peter,

Just copying in Maria so we are all working from the same email thread.

Thanks,  
 Maureen

---

**From:** Littlejohn, Maureen  
**Sent:** June 23, 2021 2:28 PM  
**To:** 'Ruby, Peter' <[pruby@goodmans.ca](mailto:pruby@goodmans.ca)>; 'Pinos, Timothy' <[tpinos@cassels.com](mailto:tpinos@cassels.com)>  
**Subject:** RE: Crystallex - Scheduling and Evidence

Hi Peter,

For your reference, here's the schedule that Tim and I were talking through this morning in relation to briefing. Subject to how you plan to proceed with respect to #3 in my email below the first date may need to be tweaked, but I don't think that needs to impact the balance of the dates.

Does this work for you? If not, can we get on a call to try to resolve it?

Thanks and best regards,  
 Maureen

---

**From:** Littlejohn, Maureen  
**Sent:** June 23, 2021 10:00 AM  
**To:** Ruby, Peter <[pruby@goodmans.ca](mailto:pruby@goodmans.ca)>; 'Pinos, Timothy' <[tpinos@cassels.com](mailto:tpinos@cassels.com)>  
**Subject:** Crystallex - Scheduling and Evidence

Hi Peter,

Following up on our attendance this morning before Morawetz C.J., we wanted to canvass a few issues with you:

1. What hearing date(s) would work for you the week of October 4? As of right now I am available throughout that week, with the possible exception of a case management conference on the Friday morning. I think Tim is also available but I'll let him speak for himself.

2. Can we have a quick call to discuss what the briefing schedule would look like leading up to those dates? Tim and I have some dates in mind but I expect we can come to agreement pretty easily on a call.
3. We heard your point this morning about Scott Reid having been required to respond to the Company's sealing motion without the benefit of having read any part of the Company's Affidavit. As of June 21, you now have a public version of that Affidavit. Do you intend to replace or to supplement your existing evidence from Scott Reid in light of the fact that he can now review that public Affidavit? If so, please let us know what you plan to do and when we will receive something further from you. The Company obviously needs to be basing its reply evidence on the whole of Scott Reid's evidence concerning the sealing motion, so to the extent that you intend to serve something further that may impact our July 9 date.

Please let us know when you are available to speak, ideally either today or tomorrow.

Thanks and best regards,  
Maureen

Court File No. CV-11-9532-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

BETWEEN:

CRYSTALLEX INTERNATIONAL

Applicant

- and -

COMPUTERSHARE TRUST COMPANY OF CANADA IN ITS CAPACITY AS TRUSTEE FOR THE HOLDERS OF CRYSTALLEX  
SENIOR 9.375% SENIOR NOTES DUE DECEMBER 23, 2011 AND THE AD HOC COMMITTEE OF BENEFICIAL OWNERS OF THE  
SENIOR NOTES.

Respondents

**UNDERTAKINGS, UNDER ADVISEMENTS AND REFUSALS GIVEN AT THE CROSS-EXAMINATION OF  
SCOTT REID HELD AUGUST 6, 2021<sup>1</sup>**

#	PAGE	QUESTION	UNDERTAKING/ADVISEMENT/REFUSAL	RESPONSE
1.	18	56	<b>Under Advisement</b> – To advise of the holdings of the other members of the Ad Hoc Committee the Crystallex senior notes.	Mr. Reid does not know the individual holdings of the other participants in the Ad Hoc Committee, and in any event the question is irrelevant.
2.	39	147	<b>Under Advisement</b> – To advise as of August 6, 2021 whether Crystallex senior notes were still Ravensource's number one investment position in terms of value.	Yes.

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<sup>1</sup> The responses provided herein are without prejudice to the Noteholders' position on the relevance of any particular question and without waiver of any applicable privilege.

- 2 -

#	PAGE	QUESTION	UNDERTAKING/ADVISEMENT/REFUSAL	RESPONSE
3.	39	148	<b>Under Advisement</b> – To advise that if it is the number one investment position, what is the percentage of net assets of Ravensource that the investment compromises.	As at June 30, 2021 (which is the date of Ravensource’s most recent financial statements, a copy of which are attached as Exhibit “A”), Crystallex’s senior notes were approximately 19.7% of Ravensource’s net assets. There has been no change in Ravensource’s holdings of Crystallex senior notes since June 30, 2021.
4.	41	161	<b>Undertaking</b> – To provide a list of the restructuring cases Mr. Reid has been involved in over the last 20 years.	See listing attached as Exhibit “B”.
5.	42	162	<b>Under Advisement</b> – To include as part of the list mentioned in the previous question, the role Mr. Reid played in each restructuring proceeding, i.e. as a member of the Ad Hoc Committee, etc.	See listing attached as Exhibit “B”.
6.	63	224	<b>Refusal</b> – To advise whether the Ad Hoc Committee has gone to the CCAA court to seek assistance in settling an acceptable form of confidentiality agreement.	Refused – Crystallex is able to review the Court record.
7.	64	225	<b>Undertaking</b> – With regards to Mr. Reid’s answer of “not to my memory” to Question 223, to advise if Mr. Reid comes to the conclusion that his answer was wrong in any respect.	Mr. Reid has not come to the conclusion that his answer was wrong in any respect.

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#	PAGE	QUESTION	UNDERTAKING/ADVISEMENT/REFUSAL	RESPONSE
8.	71	255	<b>Under Advisement</b> – To confirm whether any member of the Ad Hoc Committee has signed a confidentiality agreement in respect of this proceeding.	<p>QVT and Greywolf signed a confidentiality agreement with Crystallex in connection with the 2012 DIP solicitation process, as was required to participate in the DIP solicitation process.</p> <p>The Ad Hoc Committee is also party to a Mediation Agreement with Crystallex, Tenor, the Monitor and the Honourable Robert A. Blair dated May 22, 2019, a term of which includes: “All oral or written statements made during the Mediation (including during any of the meetings with the Mediator or among the Parties), all documents prepared or produced in connection with and during the mediation (including the Mediation Briefs and any documents provided pursuant to Paragraph 6 herein) which are not otherwise discoverable shall be made on a without prejudice basis, treated as strictly confidential and shall never be subject to disclosure through discovery or any other process.”</p>
9.	102	374	<b>Undertaking</b> – With regards to Exhibit # 12 (Ravensource management’s letter to Unitholders, dated June 30 <sup>th</sup> , 2019), if Mr. Reid believes at some point in the future that this is not actually the letter he signed and put out into the public, that we would come back and correct it.	Mr. Reid has no reason to believe Exhibit # 12 is not as indicated. (For clarity, the letter is for the period ending June 30, 2019 and is dated September 2019).
10.	140	525	<b>Undertaking</b> – To correct opposing counsel if they are wrong with regards to their math that between December 2014 and the end of 2020 Ravensource increased its holdings of Crystallex Senior Notes by about 18% relative to Ravensource’s 2014 holdings.	Counsel’s math is correct.



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#	PAGE	QUESTION	UNDERTAKING/ADVISEMENT/REFUSAL	RESPONSE
11.	141	527	<p><b>Under Advisement</b> – To detail the purchases that Mr. Reid made of Crystallex senior notes on behalf of the Stornoway Recovery Fund between December 2014 and the present day in terms of the face value of the Crystallex Senior notes.</p> <p>In response to counsel for the Noteholders asking for help with the relevance of these details, Crystallex counsel advised “I’m happy to help with the relevance but not with the witness on the call.”</p>	Refused - counsel has not provided any information regarding the relevance of this question as they indicated they would. To the extent counsel provides a satisfactory explanation as to relevance, Mr. Reid is prepared to further consider this question.
12.	142	531	<p><b>Under Advisement</b> – To provide the Stornoway recovery fund holdings of Crystallex senior notes as of December 2014 in terms of the face value.</p> <p>In response to counsel for the Noteholders asking for help with the relevance of these details, Crystallex counsel advised “I’m happy to do that, again, with the witness not on the call.”</p>	See answer to Question # 11.
13.	167	627	<b>Under Advisement</b> – Whether Goodmans has retained U.S. enforcement counsel to advise on Crystallex’s enforcement activities.	No, Goodmans has not retained U.S. enforcement counsel to advise on Crystallex’s enforcement activities.
14.	169	634	<b>Under Advisement</b> – To confirm when the engagements with Quinn Emmanuel and the other well known international arbitration firm in regards to the arbitration and enforcement came to an end.	The Ad Hoc Committee has not sought advice from either of the two firms since prior to 2018.
15.	169	635	<b>Under Advisement</b> – As part of the previous under advisement, to advise whether those counsel engaged with Crystallex’s U.S. enforcement counsel on these matters.	To the best of Mr. Reid’s knowledge, no.

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#	PAGE	QUESTION	UNDERTAKING/ADVISEMENT/REFUSAL	RESPONSE
16.	188	701	<b>Under Advisement</b> – With regards to Mr. Reid’s May 28, 2021 affidavit where he states that he was not able to review Mr. Fung’s two affidavits delivered in support of sealing as they were delivered on a confidential basis, to advise whether the second affidavit he is talking about is Mr. Fung’s October 28th, 2020, affidavit.	<p>The second affidavit Mr. Reid was referring to is Confidential Appendix I to Mr. Fung’s October 28, 2020, affidavit. The confidential and public versions of Mr. Fung’s October 28, 2020, affidavit are annexed hereto as Exhibit “C” and “D”, respectively. In his October 28, 2020, affidavit delivered in support of Crystallex’s stay extension request, Mr. Fung states: “Crystallex and its stakeholders will suffer significant and irreparable harm if the Confidential Information is made public. <u>The specific harm from the disclosure of Confidential Information is detailed in Confidential Appendix I to my Affidavit, which forms part of my Affidavit.</u> [emphasis added].</p> <p>The referenced Confidential Appendix I (which is 16 pages in length, references 9 confidential exhibits, and provides Mr. Fung’s evidence in support of Crystallex’s sealing request for the November 2020 stay extension financial information, and was incorporated by reference into his affidavit in support of Crystallex’s sealing request for the May 2021 stay extension financial information) is entirely redacted in the public version of Mr. Fung’s October 28, 2020, affidavit. As such, Mr. Reid was not able to review the evidence Mr. Fung provided in support of Crystallex’s sealing request prior to swearing his May 28 affidavit, and has still not been able to review any part of Confidential Appendix I as Crystallex has never delivered a public version of it.</p>
17.	195	720	<b>Under Advisement</b> – To identify who Mr. Reid was speculating the fourth investor was when he wrote in his December 31, 2020 management letter: “Four sophisticated investors happily own more than 90% of the senior notes leaving little opportunity for outside investors to buy.”	Refused – as Mr. Reid indicated on the record, he does not know who the investor is, and his speculation is not admissible or relevant.

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#	PAGE	QUESTION	UNDERTAKING/ADVISEMENT/REFUSAL	RESPONSE
18.	210	783	<b>Undertaking</b> – To produce any single letter sent to Crystallex in 2021 that requested all of the information sought on the cross-motion.	Aside from the email from counsel to the Noteholders to the Monitor dated May 28, 2021, attached as Exhibit “F” to Mr. Reid’s affidavit sworn July 19, 2021 (which Mr. Reid expects was provided to Crystallex), Mr. Reid is not aware of any single letter sent to Crystallex in 2021 requesting all of the information sought on the cross-motion.
19.	212	790	<b>Under Advisement</b> – To check internal correspondence with the other members of the committee and counsel to try to ascertain the date at which the committee decided to initiate the cross motion.	The Noteholder Committee decided to bring the cross-motion on May 25, 2021.

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Financial Statements of

## **RAVENSOURCE FUND**

Six months ended June 30, 2021  
(Unaudited)

# RAVENSOURCE FUND

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## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements have been prepared by Stornoway Portfolio Management Inc. in its capacity as the Investment Manager of Ravensource Fund (the "Trust"). The Trust's Investment Manager is responsible for the information and representations contained in these financial statements.

The Investment Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements made by the Investment Manager. The significant accounting policies which the Investment Manager believes are appropriate for the Trust are described in Note 3 to the unaudited interim financial statements.

On behalf of the Investment Manager

  
Scott Reid

August 24, 2021

Date

## NOTICE TO UNITHOLDERS

**The Auditors of the Partnership have not reviewed these financial statements.**

Computershare Trust Company of Canada, the Trustee of the Trust, appointed an independent auditor, who was confirmed by the unitholders, to audit the Trust's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Trust's interim financial statements, this must be disclosed in an accompanying notice.

# RAVENSOURCE FUND

## Statement of Financial Position

June 30, 2021, with comparative information for December 31, 2020  
(Unaudited)

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 7,192,017	\$ 3,334,030
Financial assets at fair value through profit or loss (cost - \$15,407,566; 2020 - \$18,672,635) (note 10)	17,895,183	19,281,671
Foreign exchange contract (note 10)	—	40,659
Interest and dividends receivable	18,407	27,431
Prepaid expenses	1,251	3,662
	25,106,858	22,687,453
<b>Liabilities</b>		
Accounts payable and accrued liabilities	83,095	98,588
Foreign exchange contract (note 10)	297,267	—
Management and administrative fees payable (note 4(a) and (b))	45,228	21,667
	425,590	120,255
Net assets attributable to holders of redeemable units	\$ 24,681,268	\$ 22,567,198
Number of redeemable units outstanding (note 6)	1,423,998	1,423,998
Net assets attributable to holders of redeemable units per unit (note 5)	\$ 17.33	\$ 15.85

See accompanying notes to financial statements.

Approved on behalf of the Trust:



Stornoway Portfolio Management Inc.,  
as Investment Manager



# RAVENSOURCE FUND

## Statement of Comprehensive Income (Loss)

Six months ended June 30, 2021, with comparative information for 2020  
(Unaudited)

	2021	2020
Income:		
Dividends and income trust distributions	\$ 133,862	\$ 235,473
Interest income for distribution purposes	16,774	83,416
	150,636	318,889
Net change in fair value on financial assets at fair value through profit or loss and foreign exchange contracts:		
Net realized gain (loss) on financial assets, including foreign exchange translations on cash	226,363	321,411
Net realized gain (loss) on foreign exchange contracts	687,991	(272,281)
Net unrealized gain (loss) on financial assets	1,876,658	(3,602,641)
Net unrealized gain (loss) on foreign exchange contracts	(337,926)	(340,073)
Net change in fair value on financial assets and foreign exchange contracts	2,453,086	(3,893,584)
	2,603,722	(3,574,695)
Expenses:		
Management fees (note 4(a))	86,679	101,463
Legal fees	47,359	72,239
Administrative fees (note 4(b))	46,673	54,634
Independent review committee fees and expenses	18,775	18,531
Accounting fees	17,622	16,679
Audit fees	16,159	15,480
Trust administration and transfer agency fees	11,901	12,776
Listing fees	11,653	12,340
Transaction costs	7,003	10,385
Investor relations fees (note 4(d))	6,764	6,780
Other	5,464	11,171
	276,052	332,478
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 2,327,670	\$ (3,907,173)
Weighted average number of units outstanding during the period	1,423,998	1,672,870
Increase (decrease) in net assets attributable to holders of redeemable units per weighted average unit outstanding during the period	\$ 1.63	\$ (2.34)

See accompanying notes to financial statements.

## RAVENSOURCE FUND

### Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

Six months ended June 30, 2021, with comparative information for 2020  
(Unaudited)

	2021	2020
Net assets attributable to holders of redeemable units, beginning of period	\$ 22,567,198	\$ 29,712,767
Increase (decrease) in net assets attributable to holders of redeemable units	2,327,670	(3,907,173)
Capital transactions:		
Distributions to holders of redeemable units (note 5(d))	(213,600)	(250,931)
Net assets attributable to holders of redeemable units, end of period	\$ 24,681,268	\$ 25,554,663

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Statement of Cash Flows

Six months ended June 30, 2021, with comparative information for 2020  
(Unaudited)

	2021	2020
Cash and cash equivalents, beginning of period	\$ 3,334,030	\$ 5,992,900
Increase (decrease) in cash and cash equivalents during the period:		
Cash flows from (used in) operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units	2,327,670	(3,907,173)
Adjustments for non-cash income items:		
Net realized (gain) loss on financial assets including foreign exchange translations on cash	(226,363)	(321,411)
Net unrealized (gain) loss on financial assets	(1,876,658)	3,602,641
Net unrealized (gain) loss on foreign exchange contracts	337,926	340,073
Change in non-cash balances:		
(Increase) decrease in interest and dividends receivable	9,024	29,788
(Increase) decrease in prepaid expenses	2,411	(1,248)
Increase (decrease) in accounts payable and accrued liabilities	(15,493)	(44,520)
Increase (decrease) in incentive, management and administrative fees payable	23,561	(30,604)
Foreign exchange gain (loss) on cash	(57,011)	25,930
Proceeds from sale of investments	4,516,357	2,928,374
Purchase of investments	(969,837)	(954,382)
Net cash flows from (used in) operating activities	4,071,587	1,667,468
Cash flows from (used in) financing activities:		
Distributions paid to holders of redeemable units	(213,600)	(250,931)
Increase (decrease) in cash and cash equivalents during the period	3,857,987	1,416,537
Cash and cash equivalents, end of period	\$ 7,192,017	\$ 7,409,437
Supplemental cash flow information:		
Interest received	\$ 58,957	\$ 160,203
Dividends received	100,703	188,474

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Schedule of Investments

As at June 30, 2021 (unaudited)

Shares/units	Investments owned	Average cost	Fair value	Fair value as % of net asset value
Canadian equities:				
Preferred shares:				
185,929	Dundee Corp. Series 3	\$ 2,233,612	\$ 3,421,093	13.86
Common shares:				
1,000	Crystallex International Corp.	90	—	—
94,132	Distinction Energy Corp.	1,839,633	1,882,640	7.63
15,280	Glacier Media Inc.	7,946	6,800	0.03
		1,847,669	1,889,440	7.66
U.S. equities:				
Preferred shares:				
23,018	Brookfield DTLA Fund Office Trust Investor Inc. 7.625%	418,071	399,480	1.62
Common shares / trust units:				
251,667	Firm Capital Apartment Real Estate Investment Trust	2,130,923	2,353,881	9.54
424,500	Genworth Financial Inc.	2,253,751	2,052,303	8.32
343,130	GXI Acquisition Corp. Class A	432,589	271,976	1.10
861,080	GXI Acquisition Corp. Class B	1,080,229	682,520	2.77
515,766	Old PSG Wind-Down Ltd.	403,389	57,147	0.23
337,323	Quad/Graphics Inc.	2,253,297	1,735,374	7.03
1,323,256	SeaCo Ltd.	—	—	—
49,882	Spanish Broadcasting System Inc.	179,707	157,806	0.64
		8,733,885	7,311,007	29.62

# RAVENSOURCE FUND

Schedule of Investments (continued)

As at June 30, 2021 (unaudited)

Par value	Investments owned	Average cost	Fair value	Fair value as % of net asset value
	Debt:			
3,559,000	Crystallex International Corp. 9.375% due Dec 30, 2011*	2,205,375	4,853,106	19.66
1,106,316	Delphi Energy Corp. 10% due April 15, 2023* – Residual Cash Claim	19,035	21,057	0.09
		2,224,410	4,874,163	19.75
Net investments owned		15,457,647	17,895,183	72.51
Foreign exchange contract:				
	Sell \$9,900,000 USD, buy \$11,976,278 CAD @1.209725, September 10, 2021	–	(297,267)	(1.20)
Brokerage commissions		(50,081)		
Total portfolio of investments		<u>\$ 15,407,566</u>	17,597,916	71.30
Other net assets			7,083,352	28.70
Net assets			<u>\$ 24,681,268</u>	100.00

\* Defaulted

See accompanying notes to financial statements.

# RAVENSOURCE FUND

Notes to Financial Statements

Six months ended June 30, 2021

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## 1. Trust organization and nature of operations:

RavenSource Fund (the "Trust") is a closed-end investment trust which was created under the laws of the Province of Ontario pursuant to a Declaration of Trust, dated April 28, 1997, as amended January 15, 2001 and as further amended and restated as at August 22, 2003, July 1, 2008 and July 3, 2015. The Trust's units are listed on the Toronto Stock Exchange (RAV.UN).

Computershare Trust Company of Canada acts as trustee for the Trust (the "Trustee"). At a special meeting of the Trust's unitholders, Stornoway Portfolio Management Inc., an Ontario corporation, was appointed as the investment manager (the "Investment Manager") of the Trust, effective July 1, 2008. The Trust's principal place of business is located at 30 St. Clair Avenue West, Suite 901, Toronto, Ontario M4V 3A1.

The Investment Manager provides portfolio management and administrative services to the Trust, subject to the overall supervision of the Trustee. The Investment Manager is authorized to invest the Trust's assets and make investment decisions on behalf of the Trust. Employees of the Investment Manager own 168,947 (December 31, 2020 – 167,947) units, representing 11.9% (December 31, 2020 – 11.8%) of outstanding units as at June 30, 2021.

The capital of the Trust is represented by the net assets attributable to holders of redeemable units of the Trust, and comprises investments, cash and cash equivalents, and interest and dividends receivable, offset by liabilities of the Trust. As more fully outlined in the Declaration of Trust, the principal investment objective of the Trust is to achieve absolute annual returns, with an emphasis on capital gains, through investment in selected North American securities. To achieve its objectives the Trust invests across three core strategies: Distressed Securities; Alternative Credit; and Special Situations Equities. The success of the Trust depends on the investment decisions of the Investment Manager and will be influenced by a number of risk factors, including liquidity risk, market risk, investment in options, and leverage from borrowed funds.

## 2. Basis of presentation:

### (a) Basis of presentation:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They were authorized for issue by the Investment Manager on August 24, 2021.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

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## 2. Basis of presentation (continued):

### (b) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Trust's functional currency.

## 3. Significant accounting policies:

The following is a summary of the significant accounting policies followed by the Trust:

### (a) Financial instruments:

#### (i) Recognition, initial measurement and classification:

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value, with transaction costs recognized in the statements of comprehensive income (loss). Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

Under IFRS 9, the Trust classifies financial assets and financial liabilities into the following categories:

- Financial assets at FVTPL: debt securities, equity investments and derivative financial instruments;
- Financial assets at amortized cost: all other financial assets are classified as at amortized cost;
- Financial liabilities at FVTPL: derivative financial instruments and securities sold short, if any; and
- Financial liabilities at amortized cost: all other financial liabilities are classified as at amortized cost.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

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## 3. Significant accounting policies (continued):

### (ii) Fair value measurement:

Securities listed upon a recognized public stock exchange are valued at the most recent price which the security transacted as of the valuation dates. In the event a given security is not transacted on a valuation date, the Investment Manager values the security using its closing bid price. In a situation where, in the opinion of the Investment Manager, a market quotation for a security is inaccurate, unreliable, or not readily available, the fair value of the security is estimated using valuation techniques generally used in the industry. These techniques take into account market factors, valuation of similar securities and interest rates.

Short-term notes, treasury bills, bonds, asset-backed securities and other debt instruments traded in over-the-counter markets are valued at bid quotations provided by recognized investment dealers.

Securities not listed upon a recognized public stock exchange or not traded in over-the-counter markets are valued using valuation techniques, which take into account market factors, valuation of similar securities and interest rates.

The Trust recognizes financial instruments at fair value. Purchases and sales of financial assets are recognized at their trade dates. The Trust's obligation for net assets attributable to holders of redeemable units is presented on the financial statements at the redemption amount as determined according to the Declaration of Trust. All other financial assets and financial liabilities are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Trust's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value for transactions with unitholders.

The Trust may enter into foreign exchange contracts to hedge itself against foreign currency exchange rate risk for its foreign currency-denominated assets and liabilities in case of adverse foreign currency fluctuations against the U.S. dollar.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

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## 3. Significant accounting policies (continued):

Forward currency transactions are classified as foreign exchange contracts in the Trust's financial statements and represent agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency transactions are the inability of counterparties to meet the terms of their respective contracts and movements in fair value and exchange rates. The Trust considers the credit risk of the counterparty for forward currency transactions in evaluating potential credit risk and selecting counterparties to forward currency transactions.

### (iii) Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Trust and its custodian have agreed that in the event of a default, the custodian reserves the right to sell any and all property the Trust holds with the custodian or any of its affiliates, to offset any indebtedness the Trust may have.

### (iv) Recognition/derecognition:

The Trust recognizes financial assets or financial liabilities on a trade date basis - the date it commits to purchase or sell the instruments. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statements of comprehensive income (loss).

Other financial assets are derecognized when, and only when, the contractual rights to the cash flows from the asset expire; or when the Trust transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Trust derecognizes financial liabilities when, and only when, the Trust's obligations are discharged, cancelled or expired.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

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## 3. Significant accounting policies (continued):

### (b) Income recognition:

Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

Interest income for distribution purposes shown on the statements of comprehensive income (loss) represents the coupon interest received by the Trust accounted for on an accrual basis. The Trust does not amortize premiums paid or discounts received on the purchase of fixed income securities, except for zero coupon bonds, which are amortized on a straight-line basis.

Net realized gain (loss) on the sale of financial assets and net unrealized gain (loss) on financial assets are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero-coupon bonds.

### (c) Income taxes:

The Trust is taxable as a mutual fund trust under the Income Tax Act (Canada) on its income, including net realized capital gains in the taxation year, which is not paid or payable to its unitholders as at the end of the taxation year. It is the intention of the Trust to distribute all of its net income and sufficient net realized capital gains so that the Trust will not be subject to income taxes.

### (d) Foreign currency translation:

Transactions in currencies other than the Canadian dollar are translated at the rates of exchange prevailing at the transaction dates. Assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting dates. The functional currency of the Trust is the Canadian dollar. Resulting exchange differences are recognized in the statements of comprehensive income (loss) in net realized gain (loss) on financial assets and net unrealized gain (loss) on financial assets.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

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## 3. Significant accounting policies (continued):

### (e) Transaction costs:

Transaction costs are expensed and are included in the statements of comprehensive income (loss). Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

### (f) Use of estimates:

The preparation of financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Trust may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgments and estimates the Trust has made in preparing the financial statements. See note 10 for more information on fair value measurements. Actual results could differ from those estimates.

A global pandemic related to an outbreak of COVID-19 has cast additional uncertainty on the assumptions used by management in making its judgements and estimates. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and their impact on the financial results and condition of the Trust in future periods. Given that the full global economic impact of the outbreak, including government and/or regulatory responses, is not predictable at this time, there is a higher level of uncertainty with respect to management's judgements and estimates.

### (g) Cash and cash equivalents:

Cash and cash equivalents represent cash positions, as well as any unsettled trades as at June 30, 2021 and December 31, 2020.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 3. Significant accounting policies (continued):

(h) Net assets attributable to holders of redeemable units per unit:

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class outstanding at the end of the period.

(i) Increase in net assets attributable to holders of redeemable units per weighted average units outstanding during the period:

Increase in net assets attributable to holders of redeemable units per weighted average unit outstanding during the period is based on the increase in net assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the period.

## 4. Related party transactions:

(a) Management fees:

The management fees payable to the Investment Manager are based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Management fee
Up to and including \$250,000,000	0.65% plus HST
Between \$250,000,000 and \$500,000,000	0.60% plus HST
\$500,000,000 and more	0.55% plus HST

The management fees for the period ended June 30, 2021 amounted to \$86,679 (June 30, 2020 - \$101,463). The management fees payable as at June 30, 2021 amounted to \$29,398, including HST (December 31, 2020 - \$14,084).

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 4. Related party transactions (continued):

### (b) Administrative fees:

Subject to the supervision of the Trustee, the Investment Manager agrees to be responsible for and provide certain administrative services to the Trust. The Trust will pay the Investment Manager a fee based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Administrative fee
Up to and including \$250,000,000	0.35% plus HST
Between \$250,000,000 and \$500,000,000	0.30% plus HST
\$500,000,000 and more	0.25% plus HST

The administrative fees for the period ended June 30, 2021 amounted to \$46,673 (June 30, 2020 - \$54,634). The administrative fees payable as at June 30, 2021 amounted to 15,830, including HST (December 31, 2020 - \$7,583).

### (c) Incentive fee:

An incentive fee will be payable to the Investment Manager in any year, equal to 20% of the amount by which the net asset attributable to holders of redeemable units per unit at the end of the year, adjusted for contributions, distributions and redemptions during the year, exceeds the net assets attributable to holders of redeemable units per unit at the beginning of the year by more than 5%, plus any shortfall from the prior year. This fee is accrued monthly but determined annually and paid after the annual audit of the Trust's financial statements is completed. Incentive fee expense for the period ended June 30, 2021 amounted to nil, inclusive of HST (June 30, 2020 - nil). The incentive fee payable as at June 30, 2021 amounted to nil, including HST (December 31, 2020 - nil).

### (d) Investor relations fees:

The Investment Manager is paid monthly investor relations fees of \$1,000 plus applicable sales tax for unitholder reporting and other services provided under a service agreement. The aggregate investor relations fees for the period ended June 30, 2021 amounted to \$6,764, inclusive of HST (June 30, 2020 - \$6,780). The investor relations fee payable as at June 30, 2021 amounted to \$2,244, inclusive of HST (June 30, 2020 - \$1,130).

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

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## 5. Unitholders' entitlements:

The unitholders' entitlements with respect to the net assets attributable to holders of redeemable units and distribution of income are generally as follows:

(a) Entitlement in respect of net assets attributable to holders of redeemable units:

A pro rata share of the net assets attributable to holders of redeemable units of the Trust in the proportion that each unitholders' equity bears to the aggregate unitholders' equity.

(b) Tax designations and elections:

The Trustee shall file all tax returns, on behalf of the Trust, required by law.

(c) Redemption and recirculation of redeemable units:

By delivering an Annual Redemption Request to be received by the Trust's registrar and transfer agent on or before the twentieth business day prior to the applicable annual redemption date, being the valuation date following August 31 in any year ("Annual Redemption Date"), subject to compliance with applicable laws and the provisions, unitholders shall be entitled to require the Trust to redeem some or all of their units outstanding as net assets attributable to holders of redeemable units as of the Annual Redemption Date.

The Trust has the right to enter into a Recirculation Agreement prior to the Annual Redemption Date with one or more investment dealers designated by the Investment Manager. Through the recirculation process, interested purchasers have the opportunity to purchase units surrendered for redemption prior to the Annual Redemption Payment Date.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 5. Unitholders' entitlements (continued):

### (d) Distributions:

The Trust intends to make semi-annual distributions to unitholders of record as of the last valuation date of each of June and December in each calendar year, of such amount per unit as the Trustee, upon consultation with the Investment Manager, may determine. It is anticipated that the annual distribution will be at least equal to the net capital gains plus the net income of the Trust for that year, net of any tax losses brought forward from prior years.

During the period, the Trust made distributions of \$0.15 per unit on June 30, 2021 for total distributions of \$213,600 (June 30, 2020 - \$250,931).

As at December 31, 2020, the Trust had cumulative net capital losses of \$10,227,895 (2019 - \$10,771,758) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

As at December 31, 2020, the Trust had non-capital losses of \$816,767 (2019 - \$816,767) for income tax purposes that may be carried forward and applied to reduce future years' taxable income.

## 6. Redeemable units of the Trust:

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets attributable to holders of redeemable units of the Trust. Each redeemable unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net assets attributable to holders of redeemable units per unit calculated on the redemption date. During the year ended December 31, 2020, 70,636 units (2019 – 60,542) of the 319,508 redeemable units tendered for redemption (2019 – 60,542) were recirculated.

	June 30, 2021	June 30, 2020
Redeemable units, beginning of period	1,423,998	1,672,870
Redeemable units, end of period	1,423,998	1,672,870

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

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## 7. Expenses:

The Investment Manager has the power to incur and make payment out of the Trust's property any charges or expenses which, in the opinion the Investment Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Declaration of Trust, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust will be responsible for any income or excise taxes and brokerage commissions on portfolio transactions. The Investment Manager does not use soft dollar arrangements for the payment of third party products or other services.

## 8. Indemnification of the Investment Manager:

The Trust has indemnified the Investment Manager (and each of its directors and officers) from and against all liabilities and expenses, reasonably incurred by the Investment Manager, other than liabilities and expenses incurred as a result of the Investment Manager's willful misconduct, bad faith or negligence. There were no claims or expenses against the Investment Manager requiring indemnification during the period ended June 30, 2021 (year ended December 31, 2020 - nil).

## 9. Financial instruments risk management:

Managing the risks of the investment portfolio is a critical element of the investment management process. The Investment Manager's overall risk management process seeks to minimize the potentially adverse effect of risk on its financial performance in a manner that is consistent with the Trust's investment mandate. To accomplish this goal, the Investment Manager utilizes a range of well-established tools and methods to manage the risk of the Trust.

With the ability of taking both long and short positions, the Trust may incur both interest expense and borrowing fees. While the use of borrowed funds can substantially improve the return on invested capital, its use may also increase the adverse impact to which the investment portfolio of the Trust may be subjected by increasing the Trust's exposure to capital risk and higher current expenses. The Trust did not use any borrowed funds as at June 30, 2021 and December 31, 2020.



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 9. Financial instruments risk management (continued):

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

### (a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust. Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The market value of debt instruments and derivatives includes consideration of the creditworthiness of the issuer and, accordingly, represents the majority of the credit risk exposure of the Trust. All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold takes place once the broker has received payment, and purchases are paid for once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Trust's debt instruments categorized by credit rating is as follows:

	June 30, 2021		December 31, 2020	
	Fair value	Fair value as % of net assets	Fair value	Fair value as % of net assets
By credit rating:				
Non-rated	\$ —	—	\$ 498,366	2.2
Defaulted	4,874,163	19.7	6,109,530	27.1
Total	\$ 4,874,163	19.7	\$ 6,607,896	29.3

As at June 30, 2021, the market value of the Trust's foreign exchange contracts was (\$297,267) (December 31, 2020 – \$40,659), entered into in order to hedge the Trust's exposure to the U.S. dollar. The Bank of Montreal was the counterparty which is rated AA by DBRS.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 9. Financial instruments risk management (continued):

### (b) Liquidity risk:

The Trust's cash and cash equivalent positions are a readily available source of liquidity. The Investment Manager utilizes the Trust's liquidity to make investments on behalf of the Trust and to meet the Trust's financial obligations as they become due. In addition, the Trust can raise additional liquidity through the sale of its investments.

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligations on time or at a reasonable price. The Trust's exposure to liquidity risk primarily relates to the annual redemption right of unitholders. As per the Declaration of Trust, the Trust has 35 business days' notice to make a redemption payment, during which time the Investment Manager can raise sufficient cash to satisfy the payment. In addition, the Trust has the right to resell units tendered for redemption.

One measure of the Trust's liquidity to meet any such obligation is the amount of cash, cash equivalent positions and listed securities held by the Trust, expressed as a percentage of net assets attributable to holders of redeemable units.

The Trust's cash, cash equivalent positions and listed securities is as follows:

	June 30, 2021		December 31, 2020	
	Fair value	Fair value as % of net assets	Fair value	Fair value as % of net assets
Cash & equivalents	\$ 7,192,017	29.1	\$ 3,334,030	14.8
Listed securities	10,126,737	41.1	9,715,063	43.0
Total	\$ 17,318,754	70.2	\$ 13,049,093	57.8

The Investment Manager believes that all of the Trust's securities can be sold within the applicable 35-business-day notice period for the annual redemption right. However, the Investment Manager may not be able to do so without adversely impacting transaction prices.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 9. Financial instruments risk management (continued):

### (c) Market risk:

#### (i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than the Canadian dollar, which represents the functional and presentational currency of the Trust. The Trust may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure. The Trust's exposure to another currency is as follows:

June 30, 2021:

Currency	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units	
	Cash and cash equivalents	Financial assets	Foreign exchange contract	Total	Total
United States dollar	\$ 196,613	\$ 12,563,592	\$ (12,273,545)	\$ 486,660	\$ 4,867
% of net assets attributable to holders of redeemable units	0.8	50.9	(49.7)	2.0	0.0

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 9. Financial instruments risk management (continued):

December 31, 2020:

Currency	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units	
	Cash and cash equivalents	Financial assets	Foreign exchange contract	Total	Total
United States dollar	\$ 654,516	\$ 13,937,059	\$ (14,828,237)	\$ (236,662)	\$ 2,367
% of net assets attributable to holders of redeemable units	2.9	61.8	(65.7)	(1.0)	0.0

As at June 30, 2021, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to holders of redeemable units would have decreased or increased, respectively, by approximately 0.0% (\$4,867) (December 31, 2020 - 0.0% (\$2,367)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### (ii) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is no sensitivity to interest rate fluctuations on any cash balances.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 9. Financial instruments risk management (continued):

The Trust's bond investments tend to be affected more by changes in overall economic growth and company-specific fundamentals rather than changes in interest rates. Changes in interest rates do not directly affect the market value of defaulted bonds as the underlying issuers have stopped making interest payments and thus do not offer a yield component to the holder. However, the Trust's high yield bonds do have a degree of interest rate risk, which is summarized in the table below.

The Trust's exposure to debt instruments by maturity and the impact on its net assets attributable to holders of redeemable units if the yield curve is shifted in parallel by an increase of 25-basis-points ("bps"), holding all other variables constant sensitivity, would be as follows:

	June 30, 2021		December 31, 2020	
	Fair value	Fair value as % of net assets	Fair value	Fair value as % of net assets
By maturity date:				
Less than 1 year	\$ —	—	\$ 498,366	2.2
Defaulted	4,874,163	19.7	6,109,531	27.1
Total	\$ 4,874,163	19.7	\$ 6,607,896	29.3
Sensitivity to 25 bps yield change increase or decrease	\$ —	—	\$ 922	0.0

In practice, actual results may differ from the above sensitivity analysis and the difference could be material.

### (iii) Other price risk:

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from credit risk, interest rate risk or currency risk). All investments represent a risk of loss of capital. The Investment Manager of the Trust moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Trust's investment objectives and strategy. The Trust's overall market positions are monitored on a regular basis by the Investment Manager.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 9. Financial instruments risk management (continued):

The Trust's exposure to other price risk is as follows:

	June 30, 2021	December 31, 2020
% of net assets:		
North American listed securities:		
Bonds	—	2.2
Equities and warrants	41.0	40.8
Total	41.0	43.0
Sensitivity to 10% security price increase or decrease	4.1	4.3

If security prices on the North American stock exchanges had increased or decreased by 10% as at the end of June 30, 2021, with all other factors remaining constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately 4.1% or \$1,012,674 (December 31, 2020 - 4.3% / \$971,506). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### (iv) Concentration risk:

Concentration risk arises as a result of the concentration of exposures within the same category, whether geographical location, product type, industry sector or counterparty type. In particular, the key concentration risk for the Trust is its exposure to any single security or issuer.

The Trust's exposure to a single security or issuer with a fair value higher than 15% of net assets attributable to redeemable units is as follows:

	June 30, 2021		December 31, 2020	
	Cost as % of net assets	Fair value as % of net assets	Cost as % of net assets	Fair value as % of net assets
Defaulted bond	8.9	19.7	10.9	24.6

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 10. Fair value measurements:

Financial instruments are measured at fair value using a three-tier hierarchy based on inputs used to value the Trust's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in public markets for identical assets or liabilities;
- Level 2 - dealer-quoted prices in over-the-counter markets for identical assets or liabilities, or inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following tables present the Trust's financial instruments that have been measured at fair value, on a recurring basis:

June 30, 2021	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Debt	\$ 21,057	\$ —	\$ 4,853,106	\$ 4,874,163
Equities				
Preferred shares	3,820,573	—	—	3,820,573
Common shares / trust				
units	6,148,358	—	3,052,089	9,200,447
	9,989,988	—	7,905,195	17,895,183
Foreign exchange contract	—	(297,267)	—	(297,267)
	\$ 9,989,988	\$ (297,267)	\$ 7,905,195	\$ 17,597,916

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 10. Fair value measurements (continued):

December 31, 2020	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Debt	\$ —	\$ 1,045,509	\$ 5,562,387	\$ 6,607,896
Equities				
Preferred shares	3,412,748	—	1,160,504	4,573,252
Common shares / trust				
units	5,803,949	—	2,296,574	8,100,523
	9,216,697	1,045,509	9,019,465	19,281,671
Foreign exchange contract	—	40,659	—	40,659
	\$ 9,216,697	\$ 1,086,168	\$ 9,019,465	\$ 19,322,330



# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 10. Fair value measurements (continued):

The tables below show a reconciliation of the opening and closing balance of financial instruments recorded in Level 3:

	Beginning of period, January 1, 2021	Transfer from (to) Level 1	Transfer from (to) Level 2	Unrealized fair value gain (loss)	Sales, purchases, realized gains and other movements	End of period, June 30, 2021
GXI Acquisition Corp. - Unlisted Common Shares	\$ 825,914	\$ —	\$ —	\$ 3,965	\$ 124,617	\$ 954,496
Old PSG Wind Down - Unlisted Common Shares	58,680	—	—	(1,533)	—	57,147
Crystallex International Corp. - Defaulted Debt	5,543,352	—	—	(134,828)	(555,418)	4,853,106
Delphi Energy Corp. 10% Senior Notes - Residual Cash Claim	19,035	(19,035)	—	—	—	—
Distinction Energy Corp. - Unlisted Common Shares	1,411,980	—	—	470,660	—	1,882,640
Spanish Broadcasting System Inc. - Preferred Shares	1,160,504	—	—	797,948	(1,958,452)	—
Spanish Broadcasting System Inc. - Restricted Common Shares	—	—	—	(21,901)	179,707	157,806
<b>Total</b>	<b>\$ 9,019,465</b>	<b>\$ (19,035)</b>	<b>\$ —</b>	<b>\$ 1,114,311</b>	<b>\$ (2,209,546)</b>	<b>\$ 7,905,195</b>

During the period ended June 30, 2021, there was one transfer from Level 3 to Level 1 as the final distribution cheque for a cash receivable of a private company that was previously classified as Level 3 was received but not yet deposited. The Trust did not have any other significant transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy for the period ended June 30, 2021.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 10. Fair value measurements (continued):

	Beginning of year, January 1, 2020	Transfer from (to) Level 1	Transfer from (to) Level 2	Unrealized fair value gain (loss)	Sales, purchases, realized gains and other movements	End of year, December 31, 2020
Specialty Foods Group LLC - Post Closing Payment Rights	\$ 90,764	\$ -	\$ -	\$ 33,944	\$ (124,708)	\$ -
GXI Acquisition Corp. - Unlisted Common Shares	1,053,047	-	-	(227,133)	-	825,914
Old PSG Wind Down Ltd. - Unlisted Common Shares	348,242	-	-	7,906	(297,468)	58,680
Crystallex International Corp. - Defaulted Debt	6,425,704	-	-	(882,352)	-	5,543,352
Delphi Energy Corp. Equity Subscription Receipts	174,351	-	-	-	(174,351)	-
Delphi Energy Corp. Note Subscription Receipts	523,025	-	-	-	(523,025)	-
Delphi Energy Corp. 10% Senior Notes - Residual Cash Claim	-	-	19,035	-	-	19,035
Distinction Energy Corp. - Unlisted Common Shares	-	-	334,480	-	1,077,500	1,411,980
Spanish Broadcasting System Inc. - Preferred Shares	-	-	2,104,528	(944,024)	-	1,160,504
<b>Total</b>	<b>\$ 8,615,133</b>	<b>\$ -</b>	<b>\$ 2,458,043</b>	<b>\$ (2,011,659)</b>	<b>\$ (42,052)</b>	<b>\$ 9,019,465</b>

During the year ended December 31, 2020, there were two transfers from Level 2 to Level 3. The first transfer was the result of a bond investment previously classified as Level 2 that was restructured into common shares and cash receivable of a private company classified as Level 3 in the amount of \$334,480 and \$19,035, respectively. The second transfer was in the amount of \$2,104,528 and related to a preferred equity investment previously classified as Level 2 that was thinly traded during the period and was priced using a bid quote received for the security as at December 31, 2020. The Trust did not have any other significant transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy for the year ended December 31, 2020.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 10. Fair value measurements (continued):

The tables below set out information about significant unobservable inputs used as at June 30, 2021 and December 31, 2020 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value, June 30, 2021	Valuation technique	Unobservable input	Input value	Sensitivity to changes in significant unobservable inputs
GXI Acquisition Corp. - Unlisted Common Shares	954,496	Present value of expected future cash flows	Discount rate	Mid-point of high-case scenario of 30% and low-case scenario of 35%	The estimated fair value would increase (decrease) by \$108,319 (\$91,028) or 11.3% (9.5%) for each 500 bps (decrease) increase in the discount rate. Net assets attributable to holders of redeemable units would increase (decrease) by 0.4%.
Old PSG Wind Down Ltd. - Unlisted Common Shares	57,147	Expected final distribution to holders of Parent Equity Interests	Remaining cash reserves available for final distribution after expenses	\$0.08938 per share	The estimated fair value would increase (decrease) by \$51,150 or 90% for each \$0.08 increase (decrease) in post-expense cash reserves per share. Net assets attributable to holders of redeemable units would increase (decrease) by 0.2%.
Crystallex International Corp. - Defaulted Debt	4,853,106	Broker quote (bid)	Broker quote	Bid price of \$110 per \$100 face value	The estimated fair value would increase (decrease) by \$485,311 or 10% for each 10% increase (decrease) in the bid price. Net assets attributable to holders of redeemable units would increase (decrease) by 2.0%.
Distinction Energy Corp. - Unlisted Common Shares	1,882,640	Fair value of shares to be received in proposed merger agreement with Kiwetinohek Resource Corp.	Equity value per share	\$20.00 per share	The estimated fair value would increase (decrease) by \$188,264 or 10% for each 10% increase (decrease) in the equity value per share. Net assets attributable to holders of redeemable units would increase (decrease) by 0.8%.
Spanish Broadcasting System Inc. - Restricted Common Shares	157,806	Liquidity discount to public market share price	Liquidity discount	25%	The estimated fair value would increase (decrease) by \$11,689 (\$13,722) or 7% (9%) for each 10% decrease (increase) in the liquidity discount. Net assets attributable to holders of redeemable units would increase (decrease) by 0.1%.
	<u>\$ 7,905,195</u>				

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

## 10. Fair value measurements (continued):

Description	Fair value, December 31, 2020	Valuation technique	Unobservable input	Input value	Sensitivity to changes in significant unobservable inputs
GXI Acquisition Corp. - Unlisted Common Shares	825,914	Present value of expected future cash flows	Discount rate	Mid-point of high-case scenario of 30% and low-case scenario of 35%	The estimated fair value would increase (decrease) by \$130,506 (\$110,930) or 16% (13%) for each 500 bps (decrease) increase in the discount rate. Net assets attributable to holders of redeemable units would increase (decrease) by 0.6% (0.5%).
Old PSG Wind Down Ltd. - Unlisted Common Shares	58,680	Expected final distribution to holders of Parent Equity Interests	Remaining cash reserves available for final distribution after expenses	\$0.08938 per share	The estimated fair value would increase (decrease) by \$52,521 or 90% for each \$0.08 increase (decrease) in projected distributions per share. Net assets attributable to holders of redeemable units would increase (decrease) by 0.2%.
Crystallex International Corp. - Defaulted Debt	5,543,352	Broker quote (bid)	Broker quote	Bid price of \$110 per \$100 face value	The estimated fair value would increase (decrease) by \$554,335 or 10% for each 10% increase (decrease) in the bid price. Net assets attributable to holders of redeemable units would increase (decrease) by 2.5%.
Delphi Energy Corp. 10% Senior Notes - Residual Cash Claim	19,035	Expected cash recovery based on Monitor's Report	Allowed general unsecured claims	\$113,687,281	The estimated fair value would decrease by \$805 or 4% if the allowed general unsecured claim pool were to increase by \$5,000,000, or 4%. Net assets attributable to holders of redeemable units would increase (decrease) by 0.0%.
Distinction Energy Corp. - Unlisted Common Shares	1,411,980	Last transaction - purchase price of equity in CCAA restructuring transaction	Equity value per share	\$15	The estimated fair value would increase (decrease) by \$141,198 or 10% for each 10% increase (decrease) in the equity value per share. Net assets attributable to holders of redeemable units would increase (decrease) by 0.6%.
Spanish Broadcasting System Inc. - Preferred Shares	1,160,504	Broker quote (bid)	Broker quote	\$450 per \$1,000 par value	The estimated fair value would increase (decrease) by \$116,050 or 10% for each 10% in the bid price. Net assets attributable to holders of redeemable units would increase (decrease) by 0.5%.
	<u>\$ 9,019,465</u>				

The Investment Manager is responsible for performing the fair value measurements included in the financial statements of the Trust, including Level 3 measurements. The Investment Manager obtains pricing for Level 3 financial instruments from third-party pricing sources, which is reviewed and approved by the Investment Manager.

# RAVENSOURCE FUND

Notes to Financial Statements (continued)

Six months ended June 30, 2021

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## 10. Fair value measurements (continued):

Financial instruments not measured at fair value:

- (a) The cash and cash equivalents, interest and dividends receivable, accounts payable and accrued liabilities, management and administrative fees payable and incentive fee payable are short-term financial assets and financial liabilities are initially recorded at amortized cost which carrying amounts approximate fair values.

Cash and cash equivalents and interest and dividends receivable include the contractual amounts for settlement of trades and other obligations due to the Trust. Accruals represent the contractual amounts and obligations due by the Trust for settlement of trades and expenses.

- (b) The Trust's redeemable units are considered a residual interest in the assets of the Trust after deducting all of its liabilities. The redemption value of redeemable units is equal to net assets attributable to holders of redeemable units as calculated in accordance with the Declaration of Trust. The units are redeemable annually, at the holders' option, for cash equal to the proportionate share of the Trust's net asset value attributable to the share class, as described in the Declaration of Trust and in note 5(c).

## 11. Capital disclosures:

The Investment Manager has policies and procedures in place to manage the capital of the Trust in accordance with the Trust's investment objectives, strategies and restrictions, as detailed in the Declaration of Trust. Information about the capital is described in the statements of changes in net assets attributable to holders of redeemable units and the Trust does not have externally imposed capital requirements.



B

	Company	Role
1	Air Canada	Financial Advisor to Ad Hoc Bondholder Committee
2	Anderson Energy	Creditor
3	Arcan Resources	Creditor, Ad Hoc Creditor Committee Member
4	Bell Canada International	Financial Advisor to Company
5	Call-Net Enterprises	Creditor
6	CanWest Global	Creditor
7	Cinram International	Shareholder
8	Connacher Oil and Gas	Creditor
9	Crystallex International	Creditor, Ad Hoc Bondholder Committee Member
10	Delphi / Distinction Energy	Creditor, Plan of Arrangement Sponsor
11	Doman Forest Products	Financial Advisor to Potential Acquirer
12	Eatons	Creditor - Eaton Credit Card Trust
13	Exall Energy Corp	Creditor
14	First Uranium Limited	Creditor, Support Group Member
15	Gasfrac Energy Services	Creditor
16	Great Basin Gold	Creditor
17	Guestlogix Inc	Creditor, Plan of Arrangement Sponsor
18	Ivanhoe Energy Inc	Creditor
19	Laidlaw	Creditor
20	Legumex Walker	Shareholder
21	Loewen Group	Creditor
22	Microcell Telecommunications	Creditor
23	Performance Sports Group Ltd	Shareholder
24	Sheritt Power Corporation	Financial Advisor to Company
25	Specialty Foods Group Income Fund	Member of Board of Directors, Specialty Foods Group Parent Inc.
26	SR Telecom	Creditor
27	Stelco	Creditor, Ad Hoc Bondholder Committee Member
28	Tembec	Creditor
29	Uniforet	Financial Advisor to Company
30	Vicwest	Creditor



C

REMOVED FOR  
CONFIDENTIALITY

D

Court File No. CV-11-9532-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(Commercial List)**

**IN THE MATTER OF** the *Companies' Creditors Arrangement Act*, R.S.C.  
1985, c. C-36 as amended

**AND IN THE MATTER OF** a Plan of Compromise or Arrangement of  
Crystallex International Corporation

**CRYSTALLEX INTERNATIONAL CORPORATION**

Applicant

**AFFIDAVIT OF ROBERT FUNG  
Sworn October 28, 2020**

I, Robert Fung, of the City of Toronto, in the Province of Ontario, **MAKE  
OATH AND SAY:**

1. I am the Chairman and CEO of Crystallex International Corporation ("Crystallex" or the "Company"). I have also been a director of Crystallex since 1996, Chairman of the Board of Directors of Crystallex since 1998 and CEO since June 2008. As such, I have knowledge of the matters to which I hereinafter depose, which knowledge is either personal to me, obtained from a review of the documents to which I refer, or, where indicated, based on information and belief, in which case I verily believe such information to be true.

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## OVERVIEW

2. This Affidavit is sworn in support of a motion by Crystallex for an Order, among other things:

- (a) that certain un-redacted materials in connection with this motion be filed under a sealing order and not form any part of the public record in this proceeding; and
- (b) extending the Stay Period as defined in the Initial Order (defined below) until May 7, 2021.

3. On December 23, 2011, an order (the "**Initial Order**") was made granting Crystallex protection from its creditors under the *Companies' Creditors Arrangement Act* (the "**CCAA Proceeding**"). Pursuant to the Initial Order, Ernst & Young Inc. was appointed as the monitor (the "**Monitor**"). Crystallex subsequently obtained an order of the United States Bankruptcy Court for the District of Delaware on December 28, 2011, recognizing this CCAA Proceeding as a foreign main proceeding.

4. Crystallex's only asset is an award of USD \$1.202 billion, plus interest, rendered by the World Bank's International Centre for the Settlement of Investment Disputes ("ICSID") against the government of Venezuela (the "**Award**"). The Award was rendered on April 4, 2016 in respect of Venezuela's expropriation from Crystallex of its rights to the Las Cristinas gold mine.

5. In the more than four years since the Award was granted, Crystallex has been engaged in complex legal and geopolitical proceedings aimed at enforcing or otherwise realizing the value of the Award, in the face of opposition from large, well-

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funded adversaries, two competing government regimes in Venezuela (being the Nicolas Maduro-led government and the opposition government led by Juan Guaido), as well as obstacles to enforcement created by the United States government.

6. The Company's success in enforcing the Award is the single most important issue in this CCAA Proceeding; Crystallex's success on this front will dictate its ability to provide any meaningful recovery to its stakeholders. Crystallex has made significant progress in its enforcement efforts to date but it is readily apparent to both the management and the board of directors of the Company, and Crystallex's U.S. legal advisors, that, as discussed in greater detail below, a number of parties adverse in interest to the Company will not hesitate to use any confidential information regarding the Company's enforcement and monetization strategy and financial position to attempt to frustrate and block these efforts thereby jeopardizing the prospect of recovery for the Company's stakeholders. As outlined below, the sealing of certain confidential information is critical at this stage to ensuring that the Company can successfully complete its enforcement on the Award for the benefit of its stakeholders.

7. Crystallex has been operating in good faith and with all due diligence in this CCAA Proceeding, including to monetize the Award and to resolve various stakeholder issues. With all of the progress Crystallex has achieved to date, and its ongoing efforts that are detailed below, the Company has sought an extension of the Stay Period, and accompanying relief.

8. This Affidavit is divided into two parts. The first part will update this Court on the Company's ongoing enforcement efforts with respect to the Award and this CCAA

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Proceeding. The second part of this Affidavit will address the relief sought and the basis for such relief.

## **PART I - UPDATE**

### **A. UPDATE ON SETTLEMENT AND ENFORCEMENT EFFORTS WITH RESPECT TO THE AWARD**

9. As described in previous Affidavits filed in this CCAA Proceeding and in the reports of the Monitor, Crystallex, in consultation with the Monitor, developed and implemented a dual-track strategy for a negotiated resolution with Venezuela and enforcement of the Award. These efforts continue for the benefit of the Company's stakeholders and are set out in detail below.

#### **(i) Settlement with Venezuela**

10. As described in my previous Affidavits filed in this CCAA Proceeding, in November 2017, Crystallex concluded a settlement agreement with Venezuela (the "**Settlement Agreement**") of all of the outstanding issues between the parties, which was approved by Order of this Court on November 24, 2017. While Crystallex received certain payments under the Settlement Agreement, the terms of that agreement were not fulfilled by Venezuela.

11. As a result of Crystallex's success in enforcement initiatives, which included the Writ of Attachment described below, the Company and Venezuela engaged in further efforts to negotiate an amendment to the Settlement Agreement. As a result of these efforts, the parties reached an Amended and Restated Settlement Agreement dated

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September 10, 2018 (the "**Amended Settlement Agreement**"), which was approved by this Court on September 17, 2018.

██████████ Pursuant to the Amended Settlement Agreement, Venezuela agreed to make an initial payment in securities or cash with a combined market value equal to U.S.\$425,000,000 (the "**Initial Payment**"). The Initial Payment was received in securities (the "**Initial Payment Securities**") and cash. ██████████

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(ii) **Enforcement of the Award**

13. On March 25, 2017, the United States Federal Court for the District of Columbia confirmed the Award and entered judgment in Crystallex's favour in the amount of approximately U.S.\$1.4 billion (the "**Judgment**"), which became final and binding in the United States in 2019.

14. As part of its enforcement efforts, Crystallex registered the Judgment in the United States District Court for the District of Delaware (the "**Delaware Court**") and thereafter obtained orders (collectively, the "**Writ Order**") declaring that Petroleos de Venezuela, S.A. ("**PDVSA**"), Venezuela's national oil company, was the alter ego of

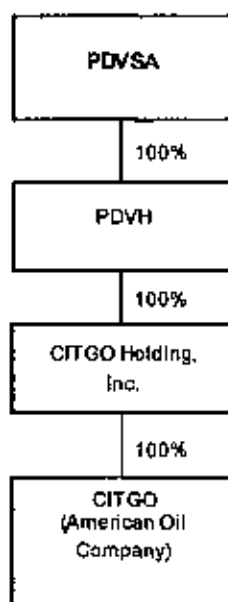


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Venezuela. The Writ Order authorized the attachment (the "**Writ of Attachment**") of PDVSA's shares in its U.S. subsidiary PDV Holding, Inc. ("PDVH" and the "PDVH Shares"). As shown in the organizational chart below, [REDACTED]

[REDACTED]

CITGO Petroleum Corp. ("CITGO"). CITGO is an American oil company and Venezuela's largest overseas asset, valued at billions of dollars.



15. In July 2019, the United States Court of Appeals for the Third Circuit affirmed the Writ Order finding that PDVSA was an alter ego of Venezuela and authorizing the Writ of Attachment (the "**Third Circuit Decision**"). Venezuela and PDVSA petitioned the United States Supreme Court for a writ of certiorari for leave to appeal the Third Circuit Decision to the United States Supreme Court. The Company's ability to enforce the Writ of Attachment and sell the PDVH Shares (and with them, control of CITGO) was stayed by the Delaware Court (the "**Delaware Stay**") while Venezuela and PDVSA sought leave to appeal to the United States Supreme Court.

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16. On May 18, 2020, the United States Supreme Court dismissed Venezuela and PDVSA's petition seeking leave to appeal. This represents significant progress in the Company's enforcement efforts; both the Judgment and the Writ Order are now final.

17. On May 22, 2020, Judge Stark of the Delaware Court (a) lifted the Delaware Stay, (b) directed PDVH to answer the Writ of Attachment, and (c) ordered simultaneous briefing on the sale process for the PDVH Shares and any motion to quash the Writ of Attachment, which Venezuela, PDVSA or any other party<sup>1</sup> wished to raise in response. As part of his Order, Judge Stark specifically invited the U.S. government to provide its views on the matters before the Delaware Court (the "**CITGO Litigation**").

18. In response, Venezuela, PDVSA and CITGO<sup>2</sup> requested Judge Stark to quash the Writ of Attachment (the "**Motion to Quash**") and asked the Delaware Court to revisit the alter-ego determination on the basis that the circumstances underlying the Writ Order have changed (the "**Rule 60 Motion**" and together with the Motion to Quash, the "**Opposition Motions**"), which the Company vigorously opposed.

19. On the evening of July 16, 2020, the day prior to the hearing of the Opposition Motions, the Department of Justice, on behalf of the U.S. government, filed a statement of interest (the "**Statement of Interest**"), which is attached as Exhibit "A" to my Affidavit, in which it informed the Court that the CITGO Litigation and possible enforcement of the Writ of Attachment implicated issues relevant to U.S. policy towards

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<sup>1</sup> The current intervenors are BlackRock Financial Management Inc. and Contrarian Capital Management L.L.C. (holders of PDVSA 2020 Bonds); Rosneft Trading S.A. (holder of a 49.9% interest in CITGO as collateral for a loan to Venezuela); Phillips Petroleum Company Venezuela Limited and ConocoPhillips Petrozuata B.V.; and CITGO

<sup>2</sup> All references to Venezuela, PDVSA and CITGO throughout this Affidavit in the context of the CITGO Litigation after January 23, 2019 refer to Venezuela, PDVSA and CITGO represented through the Guaido Government (defined below).

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Venezuela. The position adopted by the U.S. government is discussed more fully below under the heading "U.S. Policy Towards Venezuela". The Company is awaiting a decision on the Motion to Quash and the Rule 60 Motion. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] In the interim, on September 17, 2020 the Delaware Court held a hearing to address the sales process for the PDVH Shares (the "**Sales Process Motion**") and other remaining issues from the July 17, 2020 hearing. The parties are now waiting for the Delaware Court to rule on the Sales Process, in addition to the Motion to Quash and the Rule 60 Motion (collectively, the "**Delaware Decisions**"). The Delaware Decisions may be delivered concurrently or separately. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

## B. RECENT EVENTS RELEVANT TO THE COMPANY AND THE AWARD

21. Although the Judgment and Writ Order are now final, there continue to be a number of factors in addition to the Opposition Motions that create significant uncertainty and may impact the ability of Crystallex to monetize the Award. These include:

- (i) Competing government regimes in Venezuela;
- (ii) U.S. policy with respect to Venezuela;



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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

25. There may be some resolution to this issue in December following the National Assembly elections but given the number of opposition parties that have boycotted the elections, the outcome is difficult to predict. In the meantime, Crystallex is required to engage in delicate diplomacy and expects that it will continue to experience difficulty engaging with Venezuela in the coming months regardless of which regime is in power; Maduro, Guaido or an alternate government.

**(ii) U.S. Policy Towards Venezuela**

26. The Trump Administration has been very active in opposing the Maduro regime and supports the Guaido Government. Attached to **Exhibit "C"** to my Affidavit are recent articles from the New York Times and The Oppenheimer Report detailing the Trump Administration's foreign policy objectives towards Venezuela.

27. U.S. strategy has emphasized diplomatic efforts to bolster Guaido and isolate Maduro through broad sanctions on the economy and government designed to cut off Maduro's sources of revenue. Attached as **Exhibit "D"** to my Affidavit is an excerpt from the U.S. Department of State's webpage entitled "U.S. Government Support for the Democratic Aspirations of the Venezuelan People" which outlines this strategy.

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[REDACTED]

***Participation in the CITGO Litigation***

29. The United States has taken the position in the Delaware Court that its foreign policy objectives are implicated by the CITGO Litigation. The United States further requested that the Delaware Court not authorize the sale of the PDVH Shares at this time

[REDACTED]

[REDACTED]

[REDACTED]

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31. On multiple occasions, including in written orders issued in December 2019 and May 2020, Judge Stark invited the U.S. government to file a statement of interest in connection with the CITGO Litigation. It was not until Crystallex's motion to sell the PDVH Shares was pending - almost six months after Judge Stark's first invitation and on the eve of the Opposition Motions in *July 2020*, that the Statement of Interest was filed.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

### ***Sanctions***

33. As previously disclosed to this Court, the United States Department of Treasury and the Office of Foreign Assets Control ("OFAC") have imposed sanctions<sup>3</sup> against Venezuela (the "**Sanctions**"), which the U.S. Government and Venezuela allege make it impossible for the Company to providently monetize the Initial Payment Securities

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<sup>3</sup> Including by way of an executive order made on August 5, 2019 entitled "Blocking Property of the Government of Venezuela".

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or execute on the PDVH Shares subject to the Writ of Attachment, without first obtaining a license from the U.S. Government.

34. Crystallex has now submitted its application for a specific license authorizing the sale of the PDVH Shares and is awaiting OFAC's decision. OFAC provides scant public information about the approval process for licenses but OFAC has indicated that the licensing process is a political, rather than legal, process. Attached to my Affidavit as Exhibit "F" is a copy of the OFAC frequently asked questions and answers FAQ 78 wherein OFAC broadly states that many of its licensing determinations are "guided by U.S. foreign policy and national security concerns".

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] In the weeks leading up to the U.S. elections, the Trump Administration has expanded<sup>4</sup> the Sanctions on Venezuela.

36. [REDACTED]

[REDACTED] Attached as Exhibit "G" to my Affidavit is a July 16, 2020 letter to the U.S. Department of Justice from Andrea M. Gacki, the Director of OFAC, which was appended as Exhibit 2 to the Statement of Interest. In the letter, Ms. Gacki states:

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<sup>4</sup> On September 22, 2020, the United States imposed sanctions on the leaders of the four main Venezuelan opposition parties who intend to participate in the December 6 elections; Miguel Pomante, Guillermo Lucas, Bernabe Gutierrez and Chaim Bucaran. The Sanctions freeze any U.S. assets of those who are blacklisted and generally bars Americans from dealing with them.



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Crystallex's [OFAC license] submission implicates a series of complicated legal and policy questions, such as (1) the rapidly evolving and delicate political and economical situation in Venezuela, including the United States' recognition of Juan Guaido as the Interim President of Venezuela; (2) developments in OFAC sanctions to address the changed circumstances in Venezuela; and (3) the claims of numerous other creditors against Venezuela arising from the malign actions of the regimes of former President Hugo Chavez and Nicolas Maduro. Moreover, other creditors have submitted license applications that implicate PDVH shares. Based on complex considerations such as these, OFAC's internal review of Crystallex's license application, as well as the U.S. government's corresponding interagency review, remain ongoing.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

(iii) **CITGO's Uncertain Future**

38. As previously disclosed to this Court, PDVSA pledged a 50.1% interest in its CITGO Holding shares to secure their bonds due in 2020 (the "**2020 Bonds**"). The 2020 Bonds are in default owing to the failure by PDVSA to make a US\$913 million payment due on October 28, 2019, placing the holders of the 2020 Bonds (the "**2020 Bondholders**") in competition with the Company for the control of the sale of CITGO. The 2020 Bondholders however, like Crystallex, are currently prohibited by the Sanctions from enforcing on their debt. OFAC initially granted a license ("**General License 5**") that authorized the 2020 Bondholders to sell the CITGO shares but General License 5 was superseded most recently on October 7, 2020 by General License 5E, which prevents the holders of the 2020 Bonds from engaging in any transactions relating to the sale or

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transfer of the CITGO shares until January 19, 2021, which incidentally coincides with the last date of the current U.S. presidency.

39. On October 29, 2019, the Guaido Government commenced an action before the U.S. Federal District Court for the Southern District of New York (the "**Federal District Court**") against the 2020 Bonds trustee Mitsubishi Union Financial Group Union Bank NA (the "**2020 Trustee**") and the collateral agent Glas Americas LLC (the "**2020 Collateral Agent**") seeking, among other things, a declaratory judgment that the 2020 bonds are invalid and unenforceable because they were not approved by the Venezuelan National Assembly (the "**Declaratory Judgment Action**").<sup>5</sup> The 2020 Trustee and the 2020 Collateral Agent have agreed with the Guaido Government to forbear from foreclosing on the collateral securing the 2020 Bonds until after the Federal District Court rules on the motions.

On October 16, 2020, the Federal District Court in New York found in favour of the 2020 Bondholders and dismissed PDVSA's claims in the Declaratory Judgment Action, removing a significant obstacle to enforcement of the 2020 Bonds.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

<sup>5</sup> The Guaido Government has argued that the 2020 Bonds should be invalidated because Venezuela's National Assembly was the only legitimate branch of government in 2016; Guaido relies on the fact that the U.S. government recognized the National Assembly and Juan Guaido as Interim President in 2019 and argues this recognition would have retroactive effect to 2016. This would imply ignoring that Nicolas Maduro was the recognized head of state at that time.

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**(iv) Venezuela's Financial and Humanitarian Crisis**

41. Venezuela is facing a major financial and humanitarian crisis. Among many major economic and humanitarian woes, Venezuela is suffering from serious hyperinflation, a deeply devalued currency and severe shortages of food and medicine. In the Spring of 2020, Venezuela faced two new economic pressures: oil price wars between Russia and Saudi Arabia and the global coronavirus pandemic ("COVID-19"), which impact the Company's ability to monetize the Award.

42. Venezuela has the world's largest proven reserves of oil, and its economy is built on oil. The collapse in oil prices and the tightening Sanctions targeting the oil sector have accelerated a decline in oil production in Venezuela and a corresponding contraction in Venezuela's economy. Venezuela lacks the resources to effectively fight the COVID-19 pandemic and cannot afford an economic shutdown due to their fragile economy. Declining oil prices and production and COVID-19 have exacerbated the economic and political instability in Venezuela, which, in addition to the factors cited above, will make it more difficult for Crystallex to currently engage with the Venezuelan government with respect to the Award and potentially erode the value of Venezuela's assets, including the value of the PDVH Shares.

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43. Notwithstanding the challenging and ever-changing political landscape in Venezuela and the economic and humanitarian crisis resulting from COVID-19, in continuing pursuit of the previously-described dual-track strategy with respect to the Award, Crystallex will continue to entertain the possibility of a negotiated solution with Venezuela.

### C. NEXT STEPS

#### (i) Enforcement Efforts

[REDACTED]

**(ii) Taxes**

45. The DIP Credit Agreement contains several key provisions that relate to procedures for Crystallex's tax determination, reporting and filing obligations as well as the priority and timing of any payments to Canada Revenue Agency ("CRA"). As described in my prior affidavits sworn in this CCAA Proceeding, under the second step of the Waterfall contained in the DIP Credit Agreement, Crystallex is required "to pay any taxes, payable or required to be withheld by the Borrower or by any government in respect of the settlement, judgment or collection in relation to the Arbitration Proceeding...". As required pursuant to the DIP Credit Agreement, Crystallex engaged leading Canadian accounting and legal tax professionals (the "Tax Advisors") to advise Crystallex with respect to (a) the amount of taxes that must be paid or withheld in respect of the Award, prior to the Company making any distributions under the subsequent steps of the Waterfall, and (b) the characterization of the Award by Crystallex in any tax return filed.

46. The Company held numerous meetings with the Tax Advisors and the Monitor's tax counsel, and detailed discussions were held among the Board to discuss and develop the Company's tax strategy and filing position. Those discussions included taking into account the views of the DIP Lender (as required under the DIP Credit Agreement) and the views of the ad hoc committee of the holders of the Company's 9.375% Notes (the "Ad Hoc Committee"). Based on those discussions, it became apparent to Crystallex that the parties shared a similar view on taxes and subsequent engagement with the CRA to resolve same. In August 2020, Crystallex, the DIP Lender

and the Ad Hoc Committee ultimately reached an agreement with respect to the Company's taxes that, among other things, addressed the timing of filing and paying taxes by the Company.

47. As a result of the COVID pandemic, CRA extended the time for the filing of corporate tax returns in respect of the fiscal year 2019 to August 31, 2020.

48. Based on the detailed advice of its Tax Advisors, and in compliance with the terms of the DIP Credit Agreement, the Company (in consultation with the Monitor, the DIP Lender and the Ad Hoc Committee) filed its tax returns on August 7, 2020 (the "Tax Filing").

49. Following the Tax Filing, Crystallex, through its counsel and with the involvement of the Monitor, has started to engage with CRA to address and seek comfort with respect to the tax return filed by Crystallex. The Company continues to update counsel for the DIP Lender and the Ad Hoc Committee on its discussions and progress with CRA.

### **(iii) Mediation**

50. Matters between the Company, the DIP Lender and the Ad Hoc Committee have been contentious throughout this CCAA Proceeding. On January 27, 2020, the Company, the DIP Lender and the Ad Hoc Committee were directed by Justice Hainey to mediate their disputes.

51. Representatives of the Company, the DIP Lender and the Ad Hoc Committee, with the assistance and oversight of the Monitor, have attended numerous mediation sessions since January 2020 and the mediation is ongoing. The Company

remains optimistic that the mediation will allow the parties to resolve their disputes and avoid the need for lengthy and costly litigation before this Court. The Company intends to continue to mediate in good faith and believes there is value in allowing the mediation to continue.

**(iv) Appointment of a New Independent Director**

52. In early October 2020, Mr. Near advised that he would be tendering his resignation imminently. Mr. Near has been a director of Crystallex for 23 years, since May 5, 1997, and in 2012 was affirmed by the DIP Lender and Crystallex as the independent director, pursuant to the terms of the DIP Credit Agreement.

53. The Board, with input from the Monitor, and advice from the Company's legal advisors, established a process and criteria for the identification and selection of a new independent director, also having regard to, among other things, the requirements for appointing a new independent director under the DIP Credit Agreement (including the necessary "independence" standards required thereunder), the Corporation's articles and by-laws, and the *Canada Business Corporations Act*.

54. The Board, with the assistance and direct involvement of the Monitor, identified potential candidates and conducted interviews. On October 13, 2020, the Board resolved to appoint The Honourable Mr. Sergio Marchi as the new independent director of the Corporation. Mr. Near resigned concurrently with Mr. Marchi's acceptance of the Board position.

55. Mr. Marchi has had a distinguished public sector career and maintains strong political ties to the Canadian government. Attached as **Exhibit "H"** to my affidavit

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is a copy of Mr. Marchi's curriculum vitae. Mr. Marchi is a former Member of Parliament and served as the Cabinet Minister of International Trade, Immigration and Environment. After leaving Federal politics, Mr. Marchi served as Canada's ambassador to the World Trade Organization and served as Chairman of the WTO General Council (which was a peer-appointment). Currently, Mr. Marchi sits on a number of Canadian and international corporate boards. He is also a member of the Canada Institute Advisory Board, which, according to its website, was "founded in 2001 to increase awareness and knowledge about Canada and Canada-U.S. relations among U.S. policymakers and opinion leaders." Crystallex is very fortunate to have Mr. Marchi join its Board. Crystallex believes that Mr. Marchi's unparalleled experience and deep relationships in government provide the Company with the invaluable ability to engage with both the U.S. and Canadian governments on the various significant political elements of the Company's enforcement strategy, including OFAC and the Sanctions regime.

56. On July 6, 2020, Mr. Near had retained his own independent advisor as permitted under the DIP Credit Agreement. Specifically, Mr. Near retained Pirinate Consulting Group, LLC and its principal, Mr. Gene Davis, as independent advisor to the independent director (the "**Independent Advisor**"). Mr. Davis, a former U.S. lawyer, has over 30 years of corporate and restructuring experience (including CCAA restructuring experience) and governance expertise, having sat on over 200 boards of public and private companies. Mr. Davis participated in recent mediation sessions with Mr. Blair, on behalf of the Independent Director. Mr. Marchi has confirmed that Mr. Davis and Pirinate will continue the role as Independent Advisor to Mr. Marchi, as Independent Director



## PART II – RELIEF SOUGHT

### D. REQUEST FOR A SEALING ORDER

57. As part of this Motion, Crystallex is requesting that the following materials be filed under a sealing order:

- (a) the unredacted motion record of the Company, including the unredacted version of this Affidavit; and
- (b) the unredacted version of the Monitor's Thirty-Fifth Report, (collectively, the "**Confidential Materials**").

58. The information (the "**Confidential Information**") that the Company seeks to redact in the Confidential Materials generally falls into two categories: (a) certain financial information of the Company, and in particular the Company's current cash balance (the "**Financial Information**"), and (b) descriptions of the Company's monetization and enforcement strategy, including views and predictions by Crystallex about positions taken by Venezuela, competing creditors and the U.S. government.

59. In connection with its previous stay extension motion in May 2020, Crystallex [REDACTED]

[REDACTED]

[REDACTED] which relief was denied (the "**Decision**").<sup>6</sup>

Crystallex is currently seeking leave to appeal the Decision [REDACTED]

[REDACTED] Even if Crystallex's motion for leave to appeal, or

<sup>6</sup> The Decision was rendered pursuant to an order of the Honourable Justice Hainey dated June 8, 2020 and August 31, 2020.

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an ensuing appeal, are ultimately unsuccessful, as will be discussed below, I still believe that disclosure of the Confidential Information [REDACTED] [REDACTED] will cause Crystallex and its stakeholders to suffer significant and irreparable harm and pose a serious threat to the commercial interests underpinning this CCAA Proceeding – namely, the enforcement of the Award.

60. I understand from my counsel Natalie Renner at Davies that the Monitor has made a proposal to Crystallex, the DIP Lender and the Ad Hoc Committee to adjourn any hearing on the sealing of the Confidential Materials (the "Sealing Motion") until completion of the appellate process noted above in paragraph 59. The Company and the DIP Lender are supportive of the Monitor's proposal and believe it is a practical solution to deal with sealing at this time. If the Monitor's proposal is accepted, the Company may, if necessary, provide further updated affidavit evidence in respect of the Sealing Motion with respect to the basis for sealing the Confidential Materials.

61. Crystallex and its stakeholders will suffer significant and irreparable harm if the Confidential Information is made public. The specific harm from the disclosure of Confidential Information is detailed in Confidential Appendix I to my Affidavit, which forms part of my Affidavit.

#### **E. EXTENSION OF THE STAY**

62. The Initial Order granted a stay of proceedings against Crystallex and its directors and officers during the Stay Period, which was most recently extended by Order of the Court on May 4, 2020 until November 6, 2020.

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63. Crystallex seeks an extension of the Stay Period until May 7, 2021 to allow the Company to remain focused on its enforcement and negotiation efforts while also dealing with an uncertain and volatile situation in Venezuela and with PDVSA.

██████████ The Company has made significant progress to date in monetizing the Award but there are still critical matters that remain unresolved. ██████████

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65. Crystallex believes that a six-month Stay Period is reasonable in the circumstances as it will provide the Company with time to continue to pursue the enforcement and monetization of the Award and allow for the U.S. elections and the National Assembly elections to be held. After discussions with the Monitor, the Company has decided to seek an extension of the Stay Period entirely consistent with the last extension of the Stay Period of six months.

66. Finally, the Company will continue to work with the Monitor and its principal stakeholder groups during the Stay Period to continue to respond to information requests or provide updates, as may be appropriate, and to mediate the various issues between the parties in good faith.

67. I believe that Crystallex has acted, and continues to act, in good faith and with due diligence and will continue to do so during the proposed Stay Period extension, if such extension is granted by the Court.

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68. In the circumstances, Crystallex requests that the Stay Period be extended to May 7, 2021 and does not believe that any stakeholder would be materially prejudiced if the Stay Period was so extended.

#### **F. DIP CREDIT AGREEMENT MATURITY EXTENSION AND AMENDMENT**

69. On April 16, 2012, Mr. Justice Newbould made an Order (the "DIP Order") approving a debtor-in-possession loan to the Company (the "DIP Loan") and : (i) a charge on the property of Crystallex to secure all obligations under the DIP Credit Agreement and related documents; and (ii) a charge on the property of Crystallex to secure certain compensation payable to the DIP Lender under the DIP Credit Agreement.

70. The DIP Credit Agreement provides that the DIP Lender may unilaterally extend the Maturity Date (as defined therein) in its sole discretion. The last extension of the Maturity Date under the DIP Credit Agreement expires on November 6, 2020. The Maturity Date of the DIP Credit Agreement has not been further extended at this time. The Company remains in discussions with the DIP Lender over a further amendment to the DIP Credit Agreement. The DIP Lender has advised Crystallex that it remains fully supportive of the Company and its enforcement efforts against Venezuela.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]


[REDACTED]

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**G. CRYSTALLEX'S CASH FLOW FORECASTS**

73. The Company's cash flow forecasts in connection with this motion have been filed separately and will be subject to a protective sealing order, if granted. The cash flow forecasts show that the Company will have sufficient funds to meet its projected liquidity requirements throughout the requested Stay Period Extension. The Company's disbursements during the proposed Stay Period relate almost entirely to professional fees, including for the Company's strategic initiatives related to asset preservation and enforcement and collection strategies in connection with the Award and its monetization and enforcement.

SWORN BEFORE ME at the City of  
Toronto, in the Province of Ontario,  
this 28<sup>th</sup> day of October, 2020.

  
Natalie Renner  
Commissioner for taking Affidavits

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ROBERT FUNG

IN THE MATTER OF a Plan of Compromise or Arrangement of Crystallex International Corporation  
Crystallex International Corporation Applicant

Commercial List File No: CV-11-9532-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(Commercial List)**

Proceeding commenced at Toronto

**AFFIDAVIT OF ROBERT FUNG  
(Sworn October 28, 2020)**

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**APPENDIX 1 to the**

**AFFIDAVIT OF ROBERT FUNG**

**SWORN OCTOBER 28, 2020**

This is Exhibit "A" referred to in the Affidavit of Robert Fung sworn October 28, 2020.

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*Commissioner for Taking Affidavits (or as may be)*

**NATALIE RENNER**



**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE**

CRYSTALLEX INTERNATIONAL  
CORPORATION,

*Plaintiff,*

v.

BOLIVARIAN REPUBLIC OF VENEZUELA,

*Defendant.*

C.A. No. 17-mc-00151-LPS

**STATEMENT OF INTEREST OF THE UNITED STATES**

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Dated: July 16, 2020

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## INTRODUCTION

The United States files this Statement of Interest<sup>1</sup> in response to the invitation of this Court,<sup>2</sup> *see* D.I. 154 at 23. The United States respectfully submits the following views: (1) the current situation in Venezuela implicates important U.S. foreign policy and national security interests, and has changed materially since this Court originally issued the writ of attachment in 2018; (2) these changed circumstances could justify granting the Bolivarian Republic of Venezuela's ("Venezuela") Rule 60(b) motion; and (3) even if this Court denies or defers the Rule 60(b) motion, and the motion to quash the writ of attachment, it should not authorize Crystallex International Corp. ("Crystallex") to proceed toward the contemplated sale of shares of PDV Holding, Inc. ("PDVH") owned by the Venezuelan national oil company, Petróleos de Venezuela, S.A. ("PDVSA") at this time. Such a sale is dependent on a license from Treasury's Office of Foreign Assets Control ("OFAC"), and moving forward in the manner Crystallex suggests could imperil U.S. foreign policy and national security interests.

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<sup>1</sup> Congress has authorized the Attorney General to send "any officer of the Department . . . to any . . . district in the United States to attend to the interests of the United States in a suit pending in a court of the United States." 28 U.S.C. § 517. "A statement of interest, which is authorized by 28 U.S.C. § 517, is designed to explain to a court the interests of the United States in litigation between private parties." *Hunton & Williams v. U.S. Dep't of Justice*, 590 F.3d 272, 291 (4th Cir. 2010) (Michael, J., dissenting).

<sup>2</sup> The United States recognizes that this Statement of Interest is being filed the day before this Court's hearing on the pending motions. *See* D.I. 174. The United States sincerely apologizes to the Court and the parties for any inconvenience caused by filing so close to the hearing date.

## DISCUSSION

### **I. The Current Situation in Venezuela Implicates Important U.S. Foreign Policy and National Security Interests.**

As detailed in the attached letter from Elliott Abrams, Special Representative for Venezuela at the U.S. Department of State, Venezuela is currently in the midst of an unprecedented humanitarian, political, and economic crisis. *See* Letter from Elliott Abrams to Ethan Davis, dated July 16, 2020, attached hereto as Ex. 1, at 1. The country is currently grappling with an illegitimate regime led by Nicolás Maduro and an inner circle of corrupt officials. *Id.* Over the past two decades, Maduro and his predecessor, Hugo Chávez, have destroyed democratic institutions, repressed free speech, committed serious human rights abuses, and ruined the prosperity Venezuela once enjoyed. *Id.* at 1-2. The Maduro regime has become a source of great instability in the entire region. *Id.* at 1. The regime's abuses have resulted in the greatest refugee crisis in Latin American history, with more than five million Venezuelans leaving their country seeking freedom, sustenance, or both. *Id.* As Secretary of the Treasury Mnuchin has stated, "[t]he policies of the regime of President Maduro have consequences that extend beyond Venezuela's borders, threatening regional stability and national security." Statement by Sec. Steven T. Mnuchin Following Meeting on Venezuela (Apr. 19, 2018), <https://home.treasury.gov/news/press-releases/sm0353>. Indeed, the Maduro regime has built a close relationship with foreign adversaries of the United States which, but for the regime's existence, would have little foothold in South America: Russia, China, and most recently Iran. Ex. 1, at 1. That these relationships include military and intelligence aspects makes them even more worrying for U.S. national security. *Id.*

Since January 23, 2019, the United States has recognized Juan Guaidó, the democratically elected President of the Venezuelan National Assembly, as the Interim President of Venezuela. *Id.*

at 2. U.S. policy toward Venezuela is to support the full restoration of democracy, beginning with free, fair, and transparent presidential elections in which the Venezuelan people choose their leaders. *Id.* To achieve this, Secretary of State Pompeo recently proposed a “Democratic Transition Framework” to resolve Venezuela’s crisis that is rooted in a peaceful, democratic transition that calls for Maduro to step aside and the establishment of a broadly acceptable, transitional government to administer free and fair presidential elections. *Id.* This framework also sets forth a viable pathway for lifting Venezuela-related U.S. sanctions. *Id.*; *see also* U.S. Department of State, Office of the Spokesperson, “Democratic Transition Framework for Venezuela – Fact Sheet” (Mar. 31, 2020), <https://www.state.gov/democratic-transition-framework-for-venezuela>. In fact, U.S. government agencies are planning for exactly this, as Secretary of Commerce Ross outlined: “The U.S. will ease sanctions, promote domestic and international trade credit, deploy technical advisors, and engage international financial institutions to build confidence in Venezuela’s new economic policies. [It will also work to] [o]verhaul Venezuela’s central bank, tax system, fiscal institutions, debt, and banking sector in the context of a long-term [International Monetary Fund] deal and the need for economic stability and free elections.” Remarks by U.S. Commerce Sec. Wilbur L. Ross at the Venezuelan Infrastructure Breakfast in Brasilia, Brazil (Aug. 1, 2019), <https://www.commerce.gov/news/speeches/2019/08/remarks-us-commerce-secretary-wilbur-l-ross-venezuela-infrastructure>.

The United States has strong foreign policy and national security interests in supporting the interim government’s efforts to reconstruct the Venezuelan economy following the departure of Maduro. *See* Ex. 1. In the words of Special Representative Abrams:

Since recognizing the Guaidó government on January 23, 2019, the U.S. government has taken steps, including through additional

economic sanctions, to ensure Maduro is not able to liquidate in fire sales the financial assets of Venezuela that are located in United States jurisdictions (and especially CITGO, the crown jewel of PdVSA.) . . . . CITGO, as part of the U.S.-based assets of PDVH and its parent company PdVSA, is one such example of a national resource that has been placed in legal and economic jeopardy as a result of the actions of former Venezuelan governments. Critical to U.S. foreign policy, the United States assesses that the domestic legitimacy of the interim government under Guaidó would be severely eroded were a forced sale of CITGO to take place while the illegitimate Maduro regime still attempts to cling to de facto power in Caracas. The efforts by creditors to enforce judgments against Venezuela by taking immediate steps toward a conditional sale of PdVSA's U.S.-based assets, including PDVH and CITGO, are detrimental to U.S. policy and the interim government's priorities. Should these assets be advertised for public auction at this time, the Venezuelan people would seriously question the interim government's ability to protect the nation's assets, thereby weakening it and U.S. policy in Venezuela today.

Ex. 1, at 2-3.

Thus, assets such as PDVH's shares, which provide indirect ownership of CITGO, are at the heart of the United States' current foreign policy efforts with respect to Venezuela. "It is clear that its loss through a forced sale in a U.S. court would be a great political victory for the Maduro regime, which has already claimed that the United States and Guaidó are conspiring to 'steal' CITGO. The impact on Guaidó, the interim government, and U.S. foreign policy goals in Venezuela, would be greatly damaging and perhaps beyond recuperation." *Id.* at 3.

## **II. Changed Circumstances Could Justify Granting Venezuela's Motion.**

In August 2018, this Court concluded that PDVSA was an alter ego of Venezuela pursuant to the Supreme Court's decision in *First National City Bank v. Banco Para El Comercio Exterior de Cuba* ("*Bancec*"), 462 U.S. 611 (1983). In *Bancec*, the Supreme Court recognized that duly created instrumentalities of a foreign state are to be accorded a presumption of independent status.



*See id.* at 626-27. The Court noted that freely ignoring the separate status of government instrumentalities would frustrate “the efforts of sovereign nations to structure their governmental activities in a manner deemed necessary to promote economic development and efficient administration.” *Id.* at 626. As a result, *Bancec* affords a strong presumption that an independent instrumentality of a foreign state should be treated as such by U.S. courts, unless (a) that instrumentality is “so extensively controlled by its owner that a relationship of principal and agent is created” or (b) doing so “would work fraud or injustice.” *Id.* at 629.

Following *Bancec*’s guidance, this Court concluded that Crystallex had “rebutt[ed] the presumption of separateness between Venezuela and PDVSA,” and had sufficiently established that the “sovereign state exercises significant and repeated control over the instrumentality’s day-to-day operations.” *Crystallex Int’l Corp. v Bolivarian Rep. of Venezuela*, 333 F. Supp. 3d 380, 401, 403 (D. Del. 2018) (also concluding that Crystallex had not established that giving effect to the separateness of Venezuela and PDVSA would “work a fraud or injustice” as that term is used in *Bancec*). This Court also noted that Venezuela and PDVSA could seek to supplement the factual record and attempt to demonstrate that the additional evidence “materially alters the Court’s findings.” *Id.* at 425. The Third Circuit, in reviewing this Court’s decision, also noted that on remand, “Venezuela may direct to the District Court credible arguments to expand the record with later events.” *Crystallex Int’l Corp. v Bolivarian Rep. of Venezuela*, 932 F.3d 126, 144 (3d Cir. 2019). The United States respectfully submits that the circumstances underlying that determination have changed in such a manner that the Court should review its earlier finding

concerning PDVSA's independence from Venezuela.<sup>3</sup>

This Court originally concluded that PDVSA was the alter ego of the Venezuelan government because "Venezuela extensively control[led] PDVSA," *Crystallex*, 333 F. Supp. 3d at 406, based on Venezuela's practices of (1) "us[ing] PDVSA's property as its own," (2) "[i]gnoring PDVSA's separate status," (3) "[d]epriving PDVSA of independence from close political control," (4) "[r]equiring PDVSA to obtain approvals for ordinary business decisions," and (5) "[i]ssuing policies causing PDVSA to act directly on behalf of Venezuela." *Id.* at 406-09.

Since issuing that ruling, circumstances in Venezuela have materially changed. As detailed in the attached letter from Special Representative Abrams, there have been significant developments within Venezuela since 2018 that have precipitated a fundamental shift in U.S. foreign policy. In January 2019, in the wake of the fraudulent Venezuelan presidential elections, Maduro attempted to install himself as president for a second term. Ex. 1, at 2. Shortly afterwards,

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<sup>3</sup> The specific posture of this case makes it appropriate for this Court to take into account changed circumstances in considering the *current* relationship between PDVSA and Venezuela. While courts have routinely examined the historical relationship between a foreign state and its instrumentalities in determining whether to pierce the corporate veil for purposes of imposing liability, this Court was clear that it did not seek to impose Venezuela's primary liability on PDVSA. *Crystallex*, 333 F. Supp. 3d. at 391-94. Instead, the question before the Court was whether the specific property at issue was really the property of Venezuela and only nominally held by PDVSA. *Id.* at 392. This Court determined "it is appropriate – if it finds PDVSA is Venezuela's alter ego – to view the instant case as *not* involving a demand that PDVSA use *its* 'legitimately held assets' to satisfy Venezuela's judgment. Rather, the issue here is whether PDVSA's assets are, in effect, *Venezuela's* assets . . . ." *Id.* at 393. Given that inquiry, it is appropriate for the Court to consider whether the changed circumstances would result in attachment of PDVSA's legitimately held assets now. *See, e.g., Rep. of Austria v. Altmann*, 541 U.S. 677, 696 (2004) ("[Foreign sovereign] immunity reflects current political realities and relationships, and aims to give foreign states and their instrumentalities some *present* protection from the inconvenience of suit as a gesture of comity." (alteration in original, quotation marks omitted)).

the National Assembly, in its role as the only legitimate branch of government duly elected by the Venezuelan people, responded by invoking the Venezuelan Constitution to declare the office of the presidency vacant, upon which Juan Guaidó, President of the National Assembly, was sworn in as Interim President. *Id.* President Trump immediately issued a public statement officially recognizing Guaidó as the Interim President of Venezuela, and Secretary of State Pompeo similarly issued a statement concerning the United States' recognition of the "new Venezuelan government." *Id.* On January 5, 2020, following Guaidó's re-election as president of the National Assembly despite an "unlawful, violent, and despicable campaign of arrests, intimidation, and bribery" led by Maduro regime officials, the State Department issued a congratulatory statement, noting that "[t]he United States and 57 other countries continue to regard [Guaidó] as the legitimate . . . interim president of Venezuela." The United States Congratulates Interim President Juan Guaido on His Re-Election as President of the National Assembly (Jan. 5, 2020), <https://ve.usembassy.gov/the-united-states-congratulates-interim-president-juan-guaido-on-his-re-election-as-president-of-the-national-assembly>; Ex. 1, at 2.

"Recognition is a 'formal acknowledgement' that a particular 'entity possesses the qualifications for statehood' or 'that a particular regime is the effective government of a state.'" *1702tofsky v. Kerry*, 576 U.S. 1, 11 (2015) (quoting Restatement (Third) of Foreign Relations Law of the United States § 203, cmt. a, p. 84 (1986)). The Supreme Court has made clear that "[t]he text and structure of the Constitution grant the President the power to recognize foreign nations and governments" and that the power is "exclusive," *i.e.*, is vested solely in the President, rather than in the Courts or the Congress. *Id.* at 14. This exclusivity has wide-reaching legal ramifications. Because "[p]olitical recognition is exclusively a function of the Executive," *Banco*

*Nacional de Cuba v. Sabbatino*, 376 U.S. 398, 410 (1964), courts are bound by that judgment when determining what regime constitutes the government of a state. *See, e.g., United States v. Pink*, 315 U.S. 203, 223 (1942) (“[R]ecognition of a foreign sovereign conclusively binds the courts.”); *see also Crystallex*, 932 F.3d at 135 n.2 (recognizing the Guaidó interim government “as authorized to speak and act on behalf of Venezuela in these appeals”); *Jimenez v. Palacios*, C.A. No. 2019-0490-KSJM, 2019 WL 3526479, at \*9-11 (Del. Ch. Aug. 2, 2019) (holding that under the political question doctrine, the U.S. President’s recognition of the Guaidó government binds the Delaware Court of Chancery).

Accordingly, the U.S. government’s recognition of the Guaidó government constitutes a substantial and material change in circumstances that is itself sufficient to merit reconsideration of this Court’s earlier alter ego determination, which rested on the corrupt actions of the Maduro regime in connection with PDVSA, *e.g., Crystallex*, 333 F. Supp. 3d at 407-08. In addition, Venezuela has stated that the Guaidó government has taken “concrete steps to confirm PDVSA’s independence from Venezuela.” D.I. 184 at 13. The State Department has indicated that it has no reason to doubt the veracity of these representations concerning the independence of the PDVSA, PDVH, and CITGO boards. Ex. 1, at 2. As a result, fundamental premises underlying the alter ego ruling no longer hold.

**III. If the Court Denies the Pending Motions to Dissolve or Quash the Writ of Attachment, It Should Not Authorize Crystallex to Proceed Toward a Sale at This Time.**

This Court has recognized that it has discretion over whether, when, and in what manner it moves forward with the contemplated sale of shares of PDVH, to the extent otherwise consistent with U.S. sanctions law. *See* D.I. 154 at 9 n.13; *see also Landis v. N. Am. Co.*, 299 U.S. 248, 254-

55 (1936) (recognizing the “power inherent in every court to control the disposition of the causes on its docket”). Regardless of the disposition of the pending motions to eliminate the attachment, the United States respectfully submits that the Court should exercise any such discretion not to proceed toward a sale at this time. The prefatory steps that Crystallex proposes implicate significant U.S. foreign policy and national security interests that are rightly before the Executive Branch in the Crystallex license application, and taking action which advances toward a public auction and contingent sale would serve no purpose if OFAC ultimately denies Crystallex’s license application.

A. OFAC is currently reviewing Crystallex’s license application and is not yet in a position to issue a decision.

As this Court is aware, U.S. sanctions involving Venezuela require a license for any sale of PDVH shares. *See* 31 C.F.R. §§ 591.506(c), 591.407; 84 Fed. Reg. 3282 (Feb. 11, 2019); E.O. Nos. 13,884 (Aug. 5, 2019), 13,850 (Nov. 1, 2018), 13,835 (May 21, 2018), 13,808 (Aug. 24, 2017); *see also* OFAC FAQs 808 & 809. Crystallex has accordingly “submitted an application to OFAC for a specific license authorizing the sale of shares of PDVH,” and “seeks formal approval of the commencement of the sale process, through and including the auction of the shares of PDVH.” D.I. 182 at 7; *see also* Letter from Andrea Gacki to Ethan Davis, dated July 16, 2020, attached hereto as Ex. 2, at 1 (quoting Crystallex license application, which seeks authorization from OFAC “to provide Crystallex a Specific License to allow the federal court in the District of Delaware (which has jurisdiction over the shares in question and in whose constructive possession the shares are currently held) to pursue all activities necessary and ordinarily incident to organizing and conducting a judicial sale of the shares as provided for by U.S. federal and Delaware law, regulations, and precedents.”). OFAC notes that this request is necessary under applicable law,

not least because “a license is required before a public auction or contingent sale could occur.” *See* Ex. 2, at 2 (citing E.O. Nos. 13,808, 13,835, 13,850, 13,884; 31 C.F.R. §§ 591.201, 591.506(c), 591.407; OFAC FAQs 808 & 809). OFAC is currently reviewing this application. *See id.* at 2.

OFAC is not yet in a position to issue a license decision to Crystallex, in part because of the complexity of Crystallex’s application.<sup>4</sup> *Id.* at 2. “Unlike a routine OFAC license application, which may present a straightforward request to license a single transaction or limited set of transactions involving the applicant and a sanctioned person or a sanctioned jurisdiction, Crystallex’s submission implicates a series of complicated legal and policy questions.” *Id.* Relevant issues include the rapidly evolving situation in Venezuela, developments in the OFAC sanctions regime to address this situation, and the claims of other creditors against Venezuela—some of whom have also submitted license applications that implicate the PDVH shares. *Id.* Given the complex nature of these questions, the license request continues to undergo interagency review. *Id.*

Crystallex suggests that proceeding toward a sale of shares of PDVH “could aid OFAC in its review of Crystallex’s application for a specific license,” D.I. 198 at 3, by providing additional information about “[t]he mechanics of the sale process,” *id.* at 9-11; *see also* D.I. 154 at 9 (noting “Crystallex’s speculation . . . that OFAC will not issue a license until [a public auction takes place and] a winning bidder has been identified”). Contrary to this suggestion, proceeding toward a

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<sup>4</sup> OFAC recognizes that if this Court grants either Venezuela’s pending Rule 60(b) motion or PDVSA, PDVH, and CITGO’s pending motion to quash the writ of attachment, and thus dissolves or quashes the writ of attachment, that would obviate the need for OFAC to rule on the license application. That might also forestall the need for the parties and the Court to address certain purported issues of constitutional and foreign relations law. *See, e.g.*, D.I. 198 at 9; D.I. 154 at 23.

public auction and contingent sale “would not in any way facilitate OFAC’s license adjudication process with respect to Crystallex’s instant license application.” Ex. 2, at 2. As Director Gacki further explains in her attached letter:

It is well within OFAC’s licensing discretion to evaluate and determine whether to issue Crystallex’s requested license without needing to know the identity of the “winning bidder” in advance. OFAC uses its substantial discretion to evaluate a range of options when considering any specific licensing request, from a decision to deny the license in its entirety, to grant the license in its entirety, to grant the license subject to certain conditions, or even to bifurcate the license request and sequence the authorization of actions in the future. When evaluating a specific licensing request, OFAC could also separately determine that additional information or supplemental specific license requests are needed.

*Id.*

- B. Proceeding toward a sale at this time would imperil the United States’ foreign policy and national security interests, and would serve no purpose if OFAC ultimately denies Crystallex’s license application.

Proceeding in the manner Crystallex proposes would imperil the United States’ important foreign policy interest in supporting the Guaidó government. As Special Representative Abrams has explained:

The efforts by creditors to enforce judgments against Venezuela by taking immediate steps toward a conditional sale of PdVSA’s U.S.-based assets, including PDVH and CITGO, are detrimental to U.S. policy and the interim government’s priorities. Should these assets be advertised for public auction at this time, the Venezuelan people would seriously question the interim government’s ability to protect the nation’s assets, thereby weakening it and U.S. policy in Venezuela today.

Whatever the eventual settlement of Venezuela’s debts or the fate of other accounts or assets, CITGO today is a special case. Every Venezuelan knows of this company and it is viewed, as are Venezuela’s oil reserves, as a central piece of the national patrimony. It is clear that its loss through a forced sale in a U.S.

court would be a great political victory for the Maduro regime, which has already claimed that the United States and Guaidó are conspiring to ‘steal’ CITGO. The impact on Guaidó, the interim government, and U.S. foreign policy goals in Venezuela, would be greatly damaging and perhaps beyond recuperation.

Ex. 1, at 3. The situation in Venezuela is fluid, but absent a change in the above foreign policy considerations, these factors will weigh heavily in OFAC’s consideration of Crystallex’s license application and could prove to be dispositive of OFAC’s decision. *See* Ex. 2, at 2.

The United States respectfully submits that this Court should not authorize Crystallex to take further steps toward a forced sale of PDVH in light of the risk that such steps would harm U.S. foreign policy and national security interests in Venezuela. *See, e.g., Zarmach Oil Servs., Inc. v. U.S. Dep’t of the Treasury*, 750 F. Supp. 2d 150, 155 (D.D.C. 2010) (“[C]ourts owe a substantial measure of ‘deference to the political branches in matters of foreign policy.’” (quoting *Regan v. Wald*, 468 U.S. 222, 242 (1984))); *see also Jama v. Immigration & Customs Enforcement*, 543 U.S. 335, 348 (2005) (noting Supreme Court’s “customary policy of deference to the President in matters of foreign affairs”); 50 U.S.C. § 1702(a)(1)(B) (conferring on the President broad authority to “nullify, void, prevent or prohibit, any” transaction involving “any property in which any foreign country or a national thereof has any interest”). Here, the value of PDVH both numerically and strategically is clear; there is no comparable asset for Venezuela and its new government. *See* Ex. 1, at 3; *see also, e.g.,* D.I. 182 at 14 (estimating that “PDVH’s subsidiaries . . . have assets in excess of \$9.2 billion.”).

Additionally, at a more practical level, the parties’ submissions make clear that nothing comparable to the sale of the PDVH shares has ever been undertaken by a court in this manner. The sole example cited by Crystallex involved shares worth approximately \$500,000, a far cry



from the PDVH valuations suggested by the parties. *See* D.I. 188 at 12 n.17 (citing “unrebutted research show[ing] that the largest stock sale ever managed by the Delaware authorities under 8 Del. C. § 324 was for \$567,000”); D.I. 182 at 1-4 (seeking to sell enough shares of PDVH under 8 Del. C. § 324 to satisfy “an arbitral award of \$1.4 billion”). While the concerns of the U.S. government are with the foreign policy implications of the contemplated auction and contingent sale, the lack of any comparable examples and experience are additional reasons for the Court to forego further action until after OFAC has issued a decision on Crystallex’s pending license application.

### CONCLUSION

The United States recognizes that “Venezuela owes Crystallex from a judgment that has been affirmed in our courts,” D.I. 174 at 3 (quoting *Crystallex*, 932 F.3d at 149), and is not suggesting that Venezuela should be permitted to avoid payment of its lawful obligations. But given the changed circumstances since the Court concluded that PDVSA was an alter ego of Venezuela in 2018, the United States respectfully submits that relief under Rule 60(b) may be appropriate. And given the delicate and evolving political situation in Venezuela, the U.S. foreign policy and national security interests that are implicated, and the related economic sanctions, the United States respectfully asks the Court to refrain from authorizing an auction and sale of Venezuela’s largest and most important foreign asset while Crystallex’s licensing application is pending before OFAC. Such an action would needlessly imperil U.S. interests, and matters of equity militate against providing such relief, particularly where the parties still dispute the validity of Crystallex’s writ.

Dated: July 16, 2020

Respectfully submitted,

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**CONFIDENTIAL**  
**EXHIBIT B**

This is Exhibit "C" referred to in the Affidavit of Robert Fung sworn October 28, 2020.

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*Commissioner for Taking Affidavits (or as may be)*

**NATALIE RENNER**

## *Trump, in Florida, Seeks to Quell Doubts About His Opposition to Maduro*

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**Length:** 1389 words

**Byline:** Michael Crowley

**Highlight:** In his recent book, John Bolton, the president's former national security adviser, recounted how Mr. Trump disparaged Venezuela's opposition leader, Juan Guaidó, and was impressed by Mr. Maduro's resilience.

### **Body**

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In his recent book, John Bolton, the president's former national security adviser, recounted how Mr. Trump disparaged Venezuela's opposition leader, Juan Guaidó, and was impressed by Mr. Maduro's resilience.

President Trump renewed his opposition on Friday to Venezuela's socialist dictator, Nicolás Maduro, showcasing a hard-line position popular with Florida's Latino voters and accusing his presumptive Democratic rival, former Vice President Joseph R. Biden Jr., of supporting "pro-Communist policies" across Latin America.

Speaking at a round table in Doral, Fla., with Venezuelan and Cuban political exiles, Mr. Trump reiterated his support for Venezuela's opposition leader, Juan Guaidó, whose standing with Mr. Trump has grown uncertain in recent weeks, undermining the credibility of the United States' longtime effort to oust Mr. Maduro, an anti-American strongman who has held power since 2013.

Political analysts in Florida said that Mr. Trump hoped that a tough message against socialist regimes in Latin America could shore up his faltering support among Latinos in the state, where [recent polling](#) has shown him trailing by more than five points.

Last month, a tell-all book from Mr. Trump's former national security adviser John R. Bolton depicted the president as doubtful of Mr. Guaidó, whom his administration recognizes as Venezuela's rightful leader, and even impressed by Mr. Maduro's resilience.

Mr. Bolton writes that, after Mr. Guaidó and his allies failed in an [attempted overthrow of Mr. Maduro in April 2019](#), Mr. Trump came to see the 36-year-old opposition leader as "weak" and Mr. Maduro as "strong," and even referred to Mr. Guaidó as the "Beto O'Rourke of Venezuela," a reference to the youthful Democratic presidential candidate whose 2020 campaign quickly fizzled.

Mr. Bolton also alleges that President Vladimir V. Putin of Russia, who has helped to prop up Mr. Maduro's government with oil purchases, strategically undermined Mr. Guaidó with Mr. Trump by likening him to another Democratic presidential rival, Hillary Clinton.

Mr. Bolton even came to believe that Mr. Trump soured on Mr. Guaidó in part after noticing that the Venezuelan's wife, on a visit to the White House, was not wearing a wedding ring. Mr. Trump and the White House have said Mr. Bolton, who resigned in disgust, is embittered and not credible.

## Trump, in Florida, Seeks to Quell Doubts About His Opposition to Maduro

But the president compounded the doubts in an interview in June with the website Axios in which he [sounded notably lukewarm](#) about Mr. Guaidó, whose popularity in Venezuela has slipped. Mr. Trump said that he “wasn’t necessarily in favor” of recognizing Mr. Maduro as the country’s leader and added, “I don’t think it was very meaningful one way or the other.”

The president also said that he was open to meeting with Mr. Maduro, with whom officials of his administration have said the only thing they will negotiate is a resignation.

“I would maybe think about that,” Mr. Trump [told Axios](#). “Maduro would like to meet. And I’m never opposed to meetings — you know, rarely opposed to meetings.”

The White House moved quickly to clean up those off-message comments, and Mr. Trump himself [insisted on Twitter](#) that he would “only meet with Maduro to discuss one thing: a peaceful exit from power.”

In scripted messages like Friday’s, Mr. Trump has expressed nothing but solid support for Mr. Guaidó. In February, Mr. Trump welcomed him to the White House and hosted him as a special guest at his State of the Union address, where Mr. Trump vowed that Mr. Maduro’s “grip on tyranny will be smashed and broken.”

That is the version of Mr. Trump’s views much preferred by both the White House and his campaign aides, who hope to rally Florida’s Hispanic voters with a tough anti-Maduro message, especially the roughly 700,000 Cuban-Americans in the Miami area who mostly oppose Cuba’s government and its close ally Mr. Maduro, who supplies oil to Havana. A much smaller number of the thousands of Venezuelans in Florida, 50,000 by some estimates, are eligible to vote.

Mr. Bolton also recounts that Mr. Trump repeatedly expressed interest in invading Venezuela, an idea he has hinted at publicly, though not recently. Mr. Bolton writes that, in August 2018, the White House chief of staff at the time, John F. Kelly, told him that Mr. Trump “says it would be ‘cool’ to invade Venezuela.”

Expanding his message to include new condemnations of Cuba, which the president denounces for its communist government and for its support of Mr. Maduro, Mr. Trump sought on Friday to depict Mr. Biden as sympathetic to their socialist policies and as a vehicle for the American left to carry them out in the United States.

“Joe Biden and the radical left are trying to impose the same system — socialism-plus — in America,” Mr. Trump said. “Biden is a puppet of Bernie Sanders, A.O.C. and the radical left,” he added, using an acronym for the liberal Democratic representative Alexandria Ocasio-Cortez of New York.

“History will record you as the president who freed this hemisphere from communism and socialism,” Representative Mario Diaz-Balart, Republican of Florida, told Mr. Trump at the round table.

Christian Ulvert, a Florida-based Democratic political consultant, said that Latinos in Florida, including Venezuelans and younger Cubans, had already been questioning the efficacy of Mr. Trump’s Venezuela policy. The president’s approach has revolved around what he called “historic sanctions” and pressure on the country’s revenue-generating oil exports — an approach undermined by Russian purchases of Venezuelan oil that have angered administration officials.

“Then John Bolton’s comments come out that clearly show that the president’s talk on Venezuela was all cheap rhetoric, and that he actually has no faith in Guaidó and was ridiculing him,” Mr. Ulvert said.

Mr. Trump’s aides also renewed a repeated attack he has made against Mr. Biden in recent months, based on a [photograph showing the vice president and Mr. Maduro laughing](#) together after the inauguration of President Dilma Rousseff in 2015 in Brasília. After the exchange, the Brazilian financial newspaper Valor reported that Mr. Biden had quipped: “If I had your hair, I’d be president of the United States.”

On Friday, a Trump campaign “question of the day for Joe Biden” email asked: “When given the chance, why didn’t you stand up to brutal Venezuelan dictator Nicolás Maduro and instead palled around with him and made a joke

## Trump, in Florida, Seeks to Quell Doubts About His Opposition to Maduro

about his hair?” And speaking to reporters, the White House counselor Kellyanne Conway pressed the same point, adding, “I don’t find anything really funny about Nicolas Maduro.”

Mr. Biden responded in a statement, saying that “just like his response to this pandemic, the president has been unreliable and self-centered in his approach to the issues closest to the Venezuelan people.”

Juan S. Gonzalez, a former Obama White House national security aide who was present for the exchange, did not deny that Mr. Biden made the comment. But he said that Mr. Biden then confronted the Venezuelan, who had initially sought him out, on substantive issues including the release of political prisoners, economic reforms and engagement with the country’s political opposition. Mr. Gonzalez said the exchange lasted for “under a minute.”

He added that Mr. Trump’s pressure on Mr. Maduro appeared to be faltering, and said that signs of the president’s ambivalence toward Mr. Guaidó had played into the government’s hands and had made it easier to divide the country’s opposition.

Mr. Trump has spent much of his week on Hispanic and Latin American issues. He held [chummy meetings](#) at the White House on Wednesday with President Andrés Manuel López Obrador of Mexico, and attended a round table with Hispanic political leaders on Thursday.

“Trump’s strategy is not to win the Latino vote,” said Mr. Gonzalez, who advises Mr. Biden’s campaign, “but to take as much away from Biden as possible to win the election.” Mr. Trump carried 28 percent of the Latino vote against Mrs. Clinton in 2016.

Eduardo Gamarra, a professor at Florida International University, said he was helping to conduct a daily tracking poll that showed Mr. Trump with 55 percent support among Cuban-Americans, higher than among any other Latino group in the United States. But, he added, “Biden has nowhere the near the strength with Latinos that Clinton had in 2016.”

**Load-Date:** July 14, 2020

## *Trump Gives Venezuela's Guaidó the Embrace He Wanted*

The New York Times

July 10, 2020 Friday 21:51 EST

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**Section:** WORLD; americas

**Length:** 1049 words

**Byline:** Michael Crowley and Julie Turkewitz

**Highlight:** A guest appearance at the State of the Union and meeting at the White House put to rest talk that President Trump had lost patience with Juan Guaidó's campaign to oust Nicolás Maduro.

### **Body**

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A guest appearance at the State of the Union and meeting at the White House put to rest talk that President Trump had lost patience with Juan Guaidó's campaign to oust Nicolás Maduro.

WASHINGTON — Venezuela's opposition leader, Juan Guaidó, has long hoped to land a meeting with President [Trump](#) that would demonstrate the United States' support for his claim to being the country's rightful president.

He struck out when he and Mr. Trump were both in Davos, Switzerland, last month, and then again when they were both in South Florida last weekend. The near misses fueled speculation that Mr. Trump had lost interest in supporting the chief rival of [Venezuela's](#) leftist president, Nicolás [Maduro](#), with whom Mr. Guaidó had been locked in a yearslong political stalemate.

But Mr. Guaidó's visit to Washington this week more than made up for those disappointments when Mr. Trump gave him two moments in the spotlight that could lift him at home.

First Mr. Trump hosted Mr. Guaidó at his State of the Union address on Tuesday night and in his speech delivered one of his most forceful endorsements of the opposition, describing Mr. Guaidó as "the true and legitimate president of Venezuela" and promising that Mr. Maduro's "grip on tyranny will be smashed and broken."

In one of the night's few bipartisan moments, Republicans and Democrats stood to applaud Mr. Guaidó.

Then on Wednesday, Mr. Trump met with Mr. Guaidó at the White House, which released photos of the two leaders walking together and of Mr. Guaidó in a separate meeting with Vice President Mike Pence. A scheduled meeting with reporters was canceled at the last minute.

[Update: [The U.S. has imposed sanctions on the Russian oil company supporting Venezuela's leader.](#)]

Mr. Trump has backed Mr. Guaidó as part of his effort to topple the authoritarian rule of Mr. Maduro, whom he calls a "socialist dictator" who has destroyed his oil-rich nation's once-vibrant economy. In addition to punishing sanctions, the Trump administration has tried to pressure Mr. Maduro's foreign allies, including Cuba and Russia, to withdraw their support for his rule.

The appearances suggest that the two men's needs remain closely aligned. Mr. Guaidó, who has struggled to maintain momentum in and outside Venezuela since declaring himself the country's interim president last year, has been hunting for big international endorsements to regain that momentum.



## Trump Gives Venezuela's Guaidó the Embrace He Wanted

Mr. Trump needs support in voter-rich South Florida, home to America's largest community of Venezuelan immigrants, many of whom oppose Mr. Maduro. It is also home to voters who have fled other left-wing governments in Latin America, including tens of thousands of Cuban-Americans who resent Havana's steadfast support for Mr. Maduro.

Shannon K. O'Neil, a senior fellow at the Council on Foreign Relations who focuses on Latin America, doubted that Mr. Trump's new show of support for Mr. Guaidó would make "any difference on the ground in Venezuela. It might make some difference in Southern Florida in November."

"A handshake is great and the State of the Union — awesome. But what is the Trump administration really going to do?" she added.

Mr. Trump's national security adviser, Robert C. O'Brien, did signal on Wednesday that more substantive action might be on the way. Speaking at the Meridian International Center in Washington, Mr. O'Brien said the United States could impose sanctions on Russia's state-owned oil company, Rosneft, one of several energy giants that continue to do business with Mr. Maduro's government.

"We're letting the Russians and we're letting the company know that their support of the Maduro regime is not a good business decision, but it's also immoral, what it's doing to the people of Venezuela," he said. "I think you're going to see some action either voluntarily from the company or the U.S. will likely take action in the near future."

A Trump official speaking on the condition of anonymity said later that other energy companies that do business with the Maduro government, including Chevron, should also be on notice that the United States is not finished with its pressure campaign.

The official said the United States would not engage in direct talks with the Maduro government except to negotiate his exit from power. And he warned it not to "interfere with" Mr. Guaidó's return to Venezuela.

In and around Caracas on Wednesday, Mr. Guaidó's appearances in Washington were met with mixed reviews. Mr. Maduro delivered an emphatic verdict, releasing [a statement](#) condemning what he called Mr. Trump's "interventionist expressions."

The president's statements, he said, represent an "effort to revive the failed strategy of government change by force" amid the United States' "circuslike electoral spectacle."

A year ago, many Venezuelans received Mr. Guaidó with open arms, believing he would be the one to finally force Mr. Maduro's departure. Then came a series of political missteps, including a failed effort to win over the military.

But in recent weeks, as Mr. Maduro has tightened his grip on the country, Mr. Guaidó has been a source of frustration for many Venezuelans.

In a suburb outside Caracas called San Antonio de los Altos, Jesús Niños, 70, a retired radio announcer, said that he thought Mr. Trump's words would "revive Guaidó's power to bring people to the streets," helping to "foment the breakdown of the government."

Others were more skeptical that anything would change as a result of Mr. Trump's threats.

"They're just words," said José Álvarez, 47, a security guard, "and they're a joke on Venezuela, just like Maduro is playing a joke on the people of Venezuela."

"If the United States and Guaidó had any power," he said, "they would have already done something."

Michael Crowley reported from Washington, and Julie Turkewitz from Caracas, Venezuela. Isayen Herrera contributed reporting from San Antonio de los Altos, Venezuela, and Patricia Mazzei from Washington.

## Trump Gives Venezuela's Guaidó the Embrace He Wanted

Michael Crowley reported from Washington, and Julie Turkewitz from Caracas, Venezuela. Isayen Herrera contributed reporting from San Antonio de los Altos, Venezuela, and Patricia Mazzei from Washington.

PHOTO: President Trump met with Juan Guaidó on Wednesday, a day after calling him “the true and legitimate president of Venezuela.” (PHOTOGRAPH BY DOUG MILLS/THE NEW YORK TIMES)

**Load-Date:** July 14, 2020

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## *The Oppenheimer Report / No 'Magic Solutions' in Venezuela*

CE Noticias Financieras English

September 3, 2020 Thursday

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**Length:** 674 words

### **Body**

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Bravo! At last, a senior official of Donald Trump's administration has told the truth about Venezuela, even if it hurts many Venezuelans who have been deceived by the Republican President's demagoguery about possible U.S. military intervention in the South American country. I have been writing for years that the US representative has done great damage to the cause of freedom in Venezuela by generating false hopes for a US military intervention. That has led many Venezuelans to sit in their homes waiting for American "Marines," rather than taking to the streets to overthrow Latin America's most brutal dictatorship.

Trump, eager to win the votes of Cuban-Americans and Venezuelans in Florida, has repeatedly said that "all options are open in Venezuela, including a possible military option." But on Monday, the Trump administration's special manager for Venezuelan and Iran affairs Elliott Abrams said Venezuelan opposition should stop expecting "magic solutions" such as a Washington military intervention and focus on uniting against dictator Nicolas Maduro. Abrams mentioned that to Colombia's NTN24 news network when asked about the decision of Venezuelan hard-line opposition leader María Corina Machado to break ranks with opposition leader Juan Guaidó, the leader of the National Assembly, recognized by nearly 60 countries as Venezuela's interim president. Machado, a charismatic policy but far behind Guaidó in the polls, had asked Guaidó to invoke article 187.11 of the Venezuelan Constitution, which theoretically allows the National Assembly to invite foreign military forces to the country. "Maria Corina is completely free to say whatever she wants," Abrams said in the interview. "But this reminds me of Gabriel García Márquez's famous magical realism. What we think the opposition should do is the hard work of organizing the opposition." Abrams added that "It seems to me that Maria Corina is asking for a magical 'plan B' that will solve all of Venezuela's problems. And who's going to make the solution? The foreigners involved. I don't think that's a sensible answer to the problems facing Venezuela, or to the need for the opposition to be united." Abrams concluded by saying that unifying the opposition "doesn't get any easier when Venezuelan opposition political leaders basically say, 'I don't want to do that job, I want a magic rescue.'" Abrams was probably so sincere because the Trump administration is rightly concerned that a division in Venezuelan opposition will greatly make it much easier for Maduro to hold his fraudulent legislative elections in December. A broad opposition coalition led by Guaidó - and backed by the United States and dozens of other countries - has decided to boycott legislative elections unless Maduro allows an independent electoral tribunal and credible international observers. But the fact is Abrams told the truth. And it would be ideal if Trump did the same, and gave all his support to Guaidó. As Trump's own former Homeland Security adviser John Bolton told me in a recent interview, Trump often wavered in his support for Guaidó, and Trump's policy toward Venezuela has been guided by "america's domestic political considerations." In other words, Trump doesn't care much about Venezuela's freedom, but the Cuban-American and Venezuelan-American votes in Florida. Instead of misleading Venezuelans with false hopes of an unwilling American "magic rescue," Trump should increase the pressure on his friend Vladimir Putin, the President of Russia, to stop supporting the regime Venezuelan. Moreover, Trump should forge an effective international coalition to intensify sanctions against Maduro, as proposed by democratic rival Joe Biden. And, as Abrams said, hard-line Venezuelan opposition politicians should stop fooling the other way with "magic solutions" that are totally out of their

The Oppenheimer Report / No 'Magic Solutions' in Venezuela

control and are not in sight anywhere. A round of applause to Abrams, who has said aloud what has been an open secret in Washington in recent years. Twitter: @oppenheimera

**Load-Date:** September 4, 2020

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*Commissioner for Taking Affidavits (or as may be)*

**NATALIE RENNER**

← DEFENDING FREEDOM

★ ★ ★

## U.S. Government Support for the Democratic Aspirations of the Venezuelan People

BUREAU OF WESTERN HEMISPHERE AFFAIRS

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“ The United States stands with the brave people of Venezuela as they strive for a return to dignity and democracy. ”

Secretary of State Mike Pompeo





## ARTICLE INDEX

**What is going on in Venezuela?**

**Slide towards Dictatorship**

**A country in crisis**

**Restoring Democracy**

**How is the United States helping?**

*The U.S. effort focuses on three key pillars:*

**1. Sanctions and Visa Revocations**

**2. Diplomatic engagement**

**3. Humanitarian and Development Assistance**

**All Related Releases**

## What is going on in Venezuela?

**Slide towards Dictatorship:** On January 10, 2019, Nicolás Maduro illegally assumed the presidency of Venezuela, despite the lack of free and fair elections. As he has done for years to retain power, Maduro arbitrarily jails or bans prominent political leaders and uses the distribution of food as a tool for social control. He manipulated the electoral process and timeline to his advantage; electoral irregularities included everything from intimidation and disenfranchisement of voters to improper tabulation of the results. The freely and fairly elected Venezuelan National Assembly, in accordance with the Venezuelan constitution, determined the presidency was vacant because Maduro claimed victory in a fraudulent election.

**A country in crisis:** Meanwhile the economy and basic social services have continued to spiral downward, leading to a growing humanitarian crisis. For example:

- ◆ Nearly 9 out of 10 Venezuelans live in poverty
- ◆ More than 3 million Venezuelans have fled the country
- ◆ 90% of families report not being able to buy enough food and Venezuelans lost an average of 24 pounds in 2018.
- ◆ The country's inflation rate is over 1 million percent and growing

**Restoring Democracy:** On January 23, National Assembly President Juan Guaidó, supported by the democratically-elected National Assembly and the Venezuelan constitution, assumed the interim Presidency of Venezuela in an effort to restore democracy and constitutional rule. As of May 8, 53 countries, along with the majority of the Venezuelan people, join the United States in recognizing Juan Guaidó as the legitimate interim President of Venezuela.

**How is the United States helping?** United States policy supports the interim government, the National Assembly, and the Venezuelan people in their struggle for a stable, democratic, and prosperous Venezuela. In service of this goal, the United States has undertaken a series of strong policy actions since 2017 meant to pressure the former Maduro regime and support democratic actors. In addition, the U.S. is providing robust support for the region's humanitarian response to this crisis.

## *The U.S. effort focuses on three key pillars:*

### **1. Sanctions and Visa Revocations**

U.S. actions ensure the former Maduro regime cannot rely on the U.S. financial system for its destructive practices. The U.S. government has made over 150 designations of individuals and entities in Venezuela since 2017 via Executive Orders (E.O.) and the Kingpin Act. Learn more about these actions [here](#). More details on the U.S. Department of Treasury Sanctions are located [here](#).

In addition, The United States has imposed visa restrictions on individuals responsible for undermining Venezuela's democracy, including numerous Maduro-aligned officials and their families. Since January 10, 2019, the United States has revoked more than 700 visas, including 107 of former diplomatic personnel.

### **2. Diplomatic engagement**

The United States is working alongside regional partners to help Venezuelans return their country to a prosperous democracy and hold Maduro and those who support him accountable for the current political, economic, and humanitarian crises. On January 24, 2019, the United States and 15 other OAS member states recognized Juan Guaidó as the interim President of Venezuela. On April 9, the OAS approved a resolution to accept Guaidó's



nominee Gustavo Tarre as Venezuela's representative to the Permanent Council. The Lima

Group, consisting of 14 countries in Latin America, was founded in 2017 to find a peaceful resolution to the Venezuelan crisis. They have been committed to that goal since and issued several declarations in 2019, including a 17-point statement on April 15 calling on the UN and other international organizations for additional support; rejecting military intervention; and urging unity of process among partners supporting Venezuela.

### 3. Humanitarian and Development Assistance

U.S. assistance supports emergency response efforts throughout the region, and builds long-term capacity to assist those who have fled the crisis in Venezuela. Total regional support is more than \$256 million since Fiscal Year 2017, including:

- ◆ More than \$213 million in humanitarian response.
- ◆ \$43 million in economic and development assistance.

On January 24, Secretary Pompeo announced the United States is ready to provide an additional \$20 million in initial humanitarian assistance to the people inside Venezuela.

For more information about United States' humanitarian assistance, please visit: <https://www.usaid.gov/EstamosUnidosVE> and <https://www.state.gov/overseas-assistance-by-region/europe-central-asia-and-the-americas/#Venezuelans>.

**Find all releases, including remarks by Secretary Pompeo, Special Representative to Venezuela Abrams, and other key actions by the State Department [HERE](#).**

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#### TAGS

Bureau of Economic and Business Affairs

Bureau of Western Hemisphere Affairs

Democracy

Division for Counter Threat Finance and Sanctions

Human Rights

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**NATALIE RENNER**

# U.S. DEPARTMENT OF THE TREASURY

## FINANCIAL SANCTIONS

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## OFAC LICENSES

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### **78. What agencies other than Treasury review OFAC license applications and what are the roles of these other agencies?**

Many of OFAC's licensing determinations are guided by U.S. foreign policy and national security concerns. Numerous issues often must be coordinated with the U.S. Department of State and other government agencies, such as the U.S. Department of Commerce. Please note that the need to comply with other provisions of 31 C.F.R. chapter V, and with other applicable provisions of law, including any aviation, financial, or trade requirements of agencies other than the Department of Treasury's Office of Foreign Assets Control. Such requirements include the Export Administration Regulations, 15 C.F.R. Parts 730 et seq., administered by the Department of Commerce, and the International Traffic in Arms Regulations, 22 C.F.R. Parts 120-130, administered by the Department of State.

June 16, 2006

This is Exhibit "G" referred to in the Affidavit of Robert Fung sworn October 28, 2020.

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**NATALIE RENNER**



**EXHIBIT 2**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

July 16, 2020

Ethan P. Davis  
Assistant Attorney General  
Civil Division  
U.S. Department of Justice  
950 Pennsylvania Avenue, N.W.  
Washington, D.C. 20530

Re: *Crystallex International Corporation v. Bolivarian Republic of Venezuela*  
(D. Del. 17-mc-151-LPS)

Dear Mr. Davis:

This letter is in response to the U.S. District Court for the District of Delaware's invitations on December 12, 2019, and May 22, 2020, to provide certain input concerning the above-referenced litigation. I would appreciate your assistance in forwarding this letter to the Court.

As the Director of the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"), I, Andrea M. Gacki, confirm the following:

On April 9, 2020, Crystallex submitted a specific license application requesting OFAC "to provide Crystallex a Specific License to allow the federal court in the District of Delaware (which has jurisdiction over the shares in question and in whose constructive possession the shares are currently held) to pursue all activities necessary and ordinarily incident to organizing and conducting a judicial sale of the shares as provided for by U.S. federal and Delaware law, regulations, and precedents." In other words, Crystallex seeks OFAC authorization for an auction and sale of the shares of PDV Holding, Inc. ("PDVH") belonging to Petróleos de Venezuela, S.A. ("PDVSA"). PDVH is the holding company for CITGO Holding, Inc., which in turn wholly owns CITGO Petroleum Corp. ("CITGO"). Crystallex's license application is predicated on its possession of a valid writ of attachment against the PDVH shares issued by the U.S. District Court for the District of Delaware (Case No. C.A. No. 17-mc-00151-LPS).

In its December 12, 2019, Memorandum Order, the District of Delaware expressed interest in hearing directly from the Executive Branch regarding "whether OFAC will refrain from issuing a license until the bidding process is complete." It is my understanding that the "bidding process" referenced in the Court's order is Crystallex's proposed auction of the PDVH shares to execute on its writ of attachment. Subsequently, OFAC has monitored the Court's stay of the litigation and has reviewed the parties' recent motions and briefing in response to the

Court's May 22, 2020, Memorandum Order lifting that stay. In the May 22 Memorandum Order, the Court reiterated its interest in receiving input from the Executive Branch.

In response to the Court's question, it is not the case that OFAC is waiting to adjudicate Crystallex's license application until after a public auction of PDVH's shares has been held. Indeed, a license is required before a public auction or contingent sale could occur. *See* Executive Orders 13808, 13835, 13850, 13884; 31 C.F.R. §§ 591.201, 591.506(c) & 591.407; *see also* OFAC Frequently Asked Questions 808 & 809. In fact, taking the steps Crystallex proposes toward an auction and sale of PDVH's shares would not in any way facilitate OFAC's license adjudication process with respect to Crystallex's instant license application. It is well within OFAC's licensing discretion to evaluate and determine whether to issue Crystallex's requested license without needing to know the identity of the "winning bidder" in advance. OFAC uses its substantial discretion to evaluate a range of options when considering any specific licensing request, from a decision to deny the license in its entirety, to grant the license in its entirety, to grant the license subject to certain conditions, or even to bifurcate the license request and sequence the authorization of actions in the future. When evaluating a specific licensing request, OFAC could also separately determine that additional information or supplemental specific license requests are needed.

Although OFAC is not yet in a position to issue a decision to Crystallex on its license application, OFAC would like to take this opportunity to discuss the license application review process. Unlike a routine OFAC license application, which may present a straightforward request to license a single transaction or limited set of transactions involving the applicant and a sanctioned person or a sanctioned jurisdiction, Crystallex's submission implicates a series of complicated legal and policy questions, such as (1) the rapidly evolving and delicate political and economic situation in Venezuela, including the United States' recognition of Juan Guaidó as the Interim President of Venezuela; (2) developments in OFAC sanctions to address the changed circumstances in Venezuela; and (3) the claims of numerous other creditors against Venezuela arising from the malign actions of the regimes of former Presidents Hugo Chávez and Nicolás Maduro. Moreover, other creditors have submitted license applications that implicate the PDVH shares. Based on complex considerations such as these, OFAC's internal review of Crystallex's license application, as well as the U.S. government's corresponding interagency review, remain ongoing.

As you know, Elliott Abrams, the U.S. Department of State's Special Representative for Venezuela, has submitted to the U.S. Department of Justice (with a copy to OFAC) a letter intended for this Court indicating that any auction or sale of PDVH's shares at this time would undermine current U.S. foreign policy on Venezuela. Absent a change in the above considerations, these factors will weigh heavily in OFAC's license determination and could prove to be dispositive in adjudicating this license application.

OFAC also notes that the pending license application is predicated on Crystallex's possession of a valid writ of attachment. OFAC is aware that the Court is currently considering (1) Venezuela's Motion for Relief Under Federal Rule of Civil Procedure 60(b); and (2) PDVSA, PDVH, and CITGO's Motion to Quash the Writ of Attachment. If the Court grants either of these two motions, then Crystallex's pending license application will become moot.

OFAC intends to continue its review of Crystallex's license application while monitoring the District of Delaware litigation and communicating with the U.S. Department of State regarding Venezuela's evolving political and economic situation.

Sincerely,

**Andrea M. Gacki**

Digitally signed by Andrea M.  
Gacki  
Date: 2020.07.16 13:28:58 -04'00'

Andrea Gacki  
Director  
Office of Foreign Assets Control

This is Exhibit "H" referred to in the Affidavit of Robert Fung sworn October 28, 2020.

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*Commissioner for Taking Affidavits (or as may be)*

**NATALIE RENNER**

## HONOURABLE SERGIO MARCHI

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[smarchi777@gmail.com](mailto:smarchi777@gmail.com)

Sergio Marchi has led a distinguished private and public sector career.

He currently serves as a Director on a number of Corporate Boards in Canada and internationally. He is also a Member of the Advisory Board to the Canada Institute, a leading think tank affiliated with the Wilson Centre, in Washington. Mr. Marchi also serves as an Advisory Board Member to the Canadian American Business Council.

This September, he has started teaching at Carleton University in the Faculty of Public Affairs.

Most recently, he has served as President and Chief Executive Officer of the Canadian Electricity Association (CEA), from 2015-2019. CEA is the national body and voice for Canada's major electricity utilities.

Prior to this, Mr. Marchi held a number of positions in the private sector, both domestically and internationally.

As it relates to the public service front, the Honourable Sergio Marchi was elected as a Toronto City Councillor in 1982 and was subsequently elected as the Member of Parliament representing the Toronto riding of York West in 1984. During his time in the federal government, he served as Cabinet Minister in three critical portfolios: International Trade; Environment; and Citizenship and Immigration.

After voluntarily leaving the political arena in 1999, Mr. Marchi was appointed Canadian Ambassador to the World Trade Organization (WTO) and the United Nations (UN) Agencies in Geneva, where he served for five years. Mr. Marchi was elected by his international peers as Chairman of the WTO Council. In 2003, he was nominated by the Canadian government and the UN Secretary General to serve as Commissioner on the UN Global Commission on International Migration, a position he held until 2005.

Mr. Marchi graduated from York University with an Honours Bachelor of Arts Degree in Urban Planning. He is married, with two children.

**CONFIDENTIAL**  
**EXHIBIT I**

**CONFIDENTIAL**  
**EXHIBIT J**



**CONFIDENTIAL**  
**EXHIBIT K**

**CONFIDENTIAL**  
**EXHIBIT L**

**CONFIDENTIAL**  
**EXHIBIT M**

**CONFIDENTIAL**  
**EXHIBIT N**

**CONFIDENTIAL**  
**EXHIBIT O**

**CONFIDENTIAL**  
**EXHIBIT P**

**CONFIDENTIAL**  
**EXHIBIT Q**

Court File No.: CV-11-9532-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**IN THE MATTER OF** the *Companies' Creditors Arrangement Act*, R.S.C. 1985,  
c. C-36 as amended

**AND IN THE MATTER OF** a Plan of Compromise or Arrangement of Crystallex  
International Corporation

**CRYSTALLEX INTERNATIONAL CORPORATION**

Applicant

**AFFIDAVIT OF WENDY WHITE  
(Sworn September 3, 2021)**

I, WENDY WHITE, of the City of Toronto, in the Province of Ontario, **MAKE**

**OATH AND SAY:**

1. I am secretary to Maureen Littlejohn, a partner in the firm Davies Ward Phillips & Vineberg LLP, counsel to the Applicant, and as such manage the correspondence and calendar for Mrs. Littlejohn's practice.
2. Attached as Exhibit "A" to my Affidavit is a copy of correspondence sent from Ms. Littlejohn to Peter Ruby dated September 3, 2021.

SWORN BEFORE ME at  
the City of Toronto, in the  
Province of Ontario, this  
3rd day of September, 2021.

A Commissioner, etc.

*TREVOR N. MAY*

*Wendy White*  
WENDY WHITE



This is Exhibit "A" referred to in the affidavit of Wendy White sworn before me, this 3<sup>rd</sup> day of September, 2021.



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*Commissioner for Taking Affidavits (or as may be)*

TREVOR N. MAY

DAVIES

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Maureen Littlejohn  
T: 416 367 6916  
ml.littlejohn@dwpv.com

File 246577

September 3, 2021

**BY EMAIL**

Mr. Peter Ruby  
 Goodmans LLP  
 Bay Adelaide Centre  
 333 Bay Street, Suite 3400  
 Toronto, ON M5H 2S7 Dear Mr. Ruby,

***Re Crystallex International Corporation – CV-11-9532-00CL***  
**Refusals by Scott Reid from Cross-Examination held August 6, 2021**

We write in respect of questions #527 and 531 from the cross-examination of Scott Reid held on August 6, 2021, both of which were taken under advisement by your client. These questions relate, respectively, to: (i) the purchases of Crystallex Senior Notes made on behalf of the Stornoway Recovery Fund between December 2014 and August 6, 2021; and (ii) the Stornoway Recovery Fund's holdings of Crystallex Senior Notes as of December 2014 in terms of face value.

You have refused both questions on behalf of Mr. Reid on the basis of relevance, but have advised for each that "To the extent counsel provides a satisfactory explanation as to relevance, Mr. Reid is prepared to further consider this question"

By way of explanation, Mr. Reid takes the position, in his Affidavit sworn May 28, 2021, that his ability to "monitor and fully assess the status of [his] funds' investment in the Notes" has been impaired and that it is "very difficult to fully and accurately assess Crystallex's situation" due to the Company's sealing of its financial information.<sup>1</sup> Our position is that Mr. Reid's asserted inability to assess or to understand his investment in Crystallex is undermined substantially by the trades that have been made on behalf of both the Stornoway Recovery Fund and the Ravensource Fund during the period in which the Company's financial information has been sealed. In light of the fiduciary duties that they owe to unitholders of both Funds, there can be no doubt that Mr. Reid and Stornoway Portfolio Management were obligated to make such investments prudently, and to avoid making such investments if they lacked sufficient information about the Company to understand and assess those investments.

It is for this reason that we requested that Mr. Reid provide further details regarding the trades in the Crystallex senior notes that were made on behalf of the Stornoway Recovery Fund during the period of sealing, as well as the face value of Crystallex Senior Notes held by the Stornoway Recovery Fund

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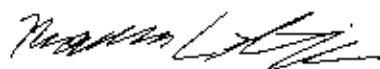
<sup>1</sup> Reid Affidavit sworn May 28, 2021 at paras. 54(a) and (b)

DAVIES

during that same period. We wish to be able to calculate both the dollar amount (in face value) by which the Stornoway Recovery Fund increased its investment during the relevant period and the percentage amount by which the Stornoway Recovery Fund increased its investment during the relevant period.

I trust that this explains more fully the relevance of the two refused questions. To the extent that your client continues to refuse to answer, we will rely on those refusals in asking the Court to draw an adverse inference at the hearing of the motions in October.

Yours very truly,



Maureen Littlejohn

cc Robin Schwill  
Natalie Renner  
Chris Armstrong  
Carlie Fox  
Tim Pinos  
Ryan Jacobs  
Shayne Kukulowicz  
David Byers  
Maria Konyukhova

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,  
R.S.C. 1985, c. C-36 AS AMENDED  
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
CRYSTALLEX INTERNATIONAL CORPORATION

Court File No. CV-11-9532-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**AFFIDAVIT OF WENDY WHITE  
(Sworn September 3, 2021)**

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Lawyers for Crystallex International Corporation

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,  
R.S.C. 1985, c. C-36 AS AMENDED  
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**SUPPLEMENTARY MOTION RECORD OF  
CRYSTALLEX INTERNATIONAL CORPORATION  
(RE: MOTION FOR PROTECTIVE ORDER)**

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