GROWTHWORKS CANADIAN FUND LTD.

September 30, 2013

GrowthWorks WV Management Ltd.
Suite 2200
Exchange Tower
130 King Street West
Toronto
ON M5X 1E3

Attention: David Levi, President

Dear Sirs/Mesdames:

Re: Management Agreement

We refer to the Amended and Restated Management Agreement dated July 15, 2006 (the "**Management Agreement**") between GrowthWorks Canadian Fund Ltd. (the "**Fund**") and GrowthWorks WV Management Ltd. (the "**Manager**").

Pursuant to the Management Agreement, the Manager has been appointed as the manager of the Fund to provide or cause to be provided to the Fund certain management and administration services (the "**Services**"), including management of the day-to-day operations of the Fund; portfolio advisory and investment management services; ensuring compliance in all material respects with securities laws, regulations and policies relating to the operation of the Fund; selecting, instructing and supervising all service providers to the Fund deemed necessary by the Manager for the due operation of the business of the Fund; calculating the net asset value of the Fund and the net asset value per share of each series of Class A Shares of the Fund; and bookkeeping and internal accounting services.

Under the Management Agreement, the Manager has agreed, among other things, that (i) the Manager will comply with the securities laws and regulations, the requirements of the Canadian securities administrators and policy statements of the securities regulatory authorities insofar as they relate to the Manager's duties and obligations under the Management Agreement (Section 3.4 of the Management Agreement); and (ii) it will exercise the powers and authorities granted to it under the Management Agreement, and discharge its duties under the Management Agreement, honestly, in good faith and in the best interests of the Fund and, in connection therewith, will exercise a degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances (Section 3.5 of the Management Agreement).

Section 3.6 of the Management Agreement provides that the Manager may engage, contract or employ other persons the Manager deems advisable in connection with providing the Services and may delegate any part of its duties and powers set out in the Management Agreement as it considers necessary or appropriate in the course of providing the Services. In Section 3.6 of the Management Agreement, the Manager acknowledges and agrees that any such arrangement or delegation will in no way diminish the obligation of the Manager to the Fund for the Services or the standard of care owed to the Fund with respect to the provision of the Services. You have advised the board of directors of the Fund (the "**Board**") that the Manager

has delegated certain of its duties under the Management Agreement, to GrowthWorks Capital Ltd. ("**GWC**") including services requiring registration under applicable securities laws.

Under Section 3.7 of the Management Agreement, the Manager must have and ensure that all persons associated with providing the Services will have, the necessary registrations and approvals under applicable securities laws and regulations to provide the component of the Services they are providing.

Pursuant to Section 3.9(a) of the Management Agreement, the Manager is required to keep proper books of account and records for the Fund.

In consideration for providing the Services, the Manager is entitled to receive, and has received, management and administration fees which totalled approximately $6,000,000 for the 12 months ended August 31, 2013.

Under Section 6.1 of the Management Agreement, the Manager has agreed to pay all normal operating expenses of the Fund incurred in providing the Services, including legal and annual audit and valuation fees.

Pursuant to Section 8.2(c) of the Management Agreement, the Management Agreement may be terminated by the Fund upon a material breach of the Management Agreement by the Manager where written notice of such breach is given to the Manager by the Fund and, if such breach is capable of being remedied, the Manager has not remedied the breach within 60 days after such notice is received by the Manager.

The Fund hereby gives notice to the Manager of the following material breaches of the Management Agreement by the Manager:

(a) The Manager is in material breach of Sections 3.4 and 3.5 of the Management Agreement. By letters to GWC dated April 16, 2013 and April 30, 2013 and in comments made by Staff of the BCSC to GWC in a related meeting **(copies of which are attached hereto as Exhibits "A", "B" and "C" (a written transcript of such comments, respectively)**, the British Columbia Securities Commission (the "**BCSC**") has, as part of its most recent compliance field examination of GWC, found, and it is the position of the Fund, that GWC and the Manager (as GWC conducts registerable activities for the Manager) breached a number of provisions of applicable securities laws in connection with the provisions of Services to the Fund following:

(i) In breach of section 125 of the *Securities Act (*British Columbia*)* (the "**BC Securities Act**") and Section 3.5 of the Management Agreement, GWC breached its fiduciary duty to the Fund. The BCSC found that GWC did not exercise the powers and discharge the duties of its office in the best interests of the Fund, nor did GWC exercise the degree of care, diligence, and skill that a reasonably prudent person would exercise in the circumstances, and that GWC has preferred its own interests to those of the Fund and other funds managed by the Manger and GWC. GWC's failure to consider all the scenarios and actions for dealing with the Canadian Fund's distressed financial situation was not in the best interests of the Fund.

(ii) GWC violated section 2, chapter 3 of its Policies and Procedures Manual ("**PPM**"). The PPM requires GWC to act "in the best interest of an investment fund managed by GrowthWorks". In violating the provisions of its PPM, GWC also breached section 11.1 of NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("**NI 31-103**"). Section 11.1 of National Instrument 31-103 required GWC to apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices.

(iii) In breach of Section 14 of the Rules, made under the BC Securities Act, GWC did not deal fairly with the Fund when recommending that the Fund borrow $33.5 million over the period from May 2010 to May 2012.

(iv) GWC violated section 2, chapter 3 of its PPM. The PPM requires GWC to avoid any activities, interest or associations which might interfere or give the appearance of interference with the independent exercise of their judgment, in the best interest of its managed funds. As GWC did not deal fairly when recommending the Canadian Fund borrow $33.5 million over the period May 2010 to May 2012, it violated its PPM. In violating the provisions of its PPM, GWC also breached section 11.1 of NI 31-103. Section 11.1 of NI 31-103, required GWC to apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices.

(v) In breach of Section 11.1 of NI 31-103, GWC failed to establish, maintain, and apply policies and procedures that establish a system of controls and supervision sufficient to provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation and manage the risks associated with its business in accordance with prudent business practices.

(b) The Manager is in material breach of Section 3.4 of the Management Agreement. By a memorandum dated August 22, 2013 from GWC to the Board, GWC advised the Board that GWC is in breach of Section 12.1 of NI 31-103 and that certain conditions have been placed on GWC as a registrant for purposes of applicable securities laws;

(c) By a memorandum dated June 4, 2013 from the Manager to the Audit Committee to the Board, the Manager admitted that it had made an error in connection with a follow-on financing by the Fund in Cytochroma Inc. ("**Cytochroma**") in the first quarter of 2012 when the Manager improperly allocated to GrowthWorks Commercialization Fund Ltd. securities of Cytochroma that should have been allocated to the Fund. The Manager subsequently failed to make due inquiries when Cytochroma initially delivered securities to the Manager in respect of that financing. Those securities of Cytochroma were subsequently exchanged for common shares of OPKO Health, Inc. in connection with the sale of Cytochroma. As a result, 88, 403 common shares of OPKO Health, Inc. remain in the control of GrowthWorks Commercialization Fund Ltd., a separate investment fund. The Manager has not taken any action to rectify this matter. Accordingly, the

Manager has materially breached its obligations under (i) Section 3.5 of the Management Agreement to (A) act in the best interests of the Fund, and (B) exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances, and (ii) Section 3.9(a) to provide proper books of account and records for the Fund;

(d) In connection with the Cytochroma transaction referred to in clause (c) above, a senior employee of the Manager at the time, Joseph Regan, has advised representatives of the Fund that he did not carefully read, before signing on behalf of the Fund, an Acknowledgement and Receipt between the Fund and Roseway that purports to impose on the Fund material contractual obligations in favour of Roseway with respect to the beneficial ownership of, and entitlement to divestment proceeded from, the sale of securities of OPKO Health, Inc. That document is now relied upon by Roseway as a basis for claiming from the Fund approximately $1.9 million in proceeds realized by the Fund in connection with the sale of those securities of OPKO Health, Inc. In executing that document without due (or any) consideration to its legal effect from the standpoint of the Fund, the Manager has materially breached its obligations under Section 3.5 of the Management Agreement, to (i) act in the best interests of the Fund, and (ii) exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances;

(e) In connection with a reconciliation prepared by PricewaterhouseCoopers ("**PWC**") on behalf of Roseway Capital S.a.r.l. ("**Roseway**") with respect to participating interest payments owing by the Fund to Roseway under the Participation Agreement dated May 28, 2010 between the Fund and Roseway, PWC discovered numerous errors by the Manager in relation to the accounts maintained by the Manager on behalf of the Fund and the calculation in payment of those participating interest payments to Roseway. These errors on the part of the Manager have caused the Fund to incur significant payments to Roseway and significant professional fees and expenses. Accordingly, the Manager has materially breached its obligations under (i) Section 3.5 of the Management Agreement to exercise the degree of care, diligence and skill that a reasonably prudent person wold exercise in the circumstances, and (ii) Section 3.9(a) of the Management Agreement to keep proper books of account and records for the Fund; and

(f) As set forth in the letters of the Fund's counsel, McCarthy Tétrault LLP dated June 18, 2013 and September 19, 2013, the Fund has improperly used the authority granted to the Manager under Section 3.1 of the Management Agreement to act on behalf of the Fund by causing the Fund to pay legal and accounting expenses that the Manager is required to pay pursuant to Section 6.1 of the Management Agreement. As a result, the Manager has materially breached its obligations under Sections 3.3, 3.5 and 6.1 of the Management Agreement.

None of the material breaches of the Management Agreement described in paragraphs (a), (c), (d) and (e) above is capable of being remedied, and the material breaches of the Management Agreement described in paragraph (f) above have not been cured by the Manager within 60 days of notice thereof by the Fund to the Manager. Accordingly, the Fund hereby gives notice to the Manager that the Management Agreement is hereby terminated pursuant to Section

8.2(c) thereof, effective immediately.

The Fund hereby reserves the right to pursue all legal remedies with respect to any breach of the Management Agreement by the Manager prior to the termination thereof.

Pursuant to Section 8.5 of the Management Agreement, the Fund hereby demands that the Manager promptly deliver to the Fund's counsel, McCarthy Tétrault LLP at Suite 5300, Toronto Dominion Bank Tower, 66 Wellington Street West, Toronto, Ontario M5R 1E6 (Attention: Jonathan Grant) all records, including, without limitation, electronic records or data in a form accessible to the Fund of or relating to the affairs of the Fund in the custody, possession or control of the Manager or any of its delegates of affiliates (including, without limitation, (i) a current list of the shareholders of the Fund; (ii) copies of all requests seeking redemption of Class A shares of the Fund that are outstanding; (iii) all other information relating to the holders of Class A shares of the Fund on a per series and per shareholder basis; (iv) all contracts to which the Fund is a party or is otherwise bound (to the extent not previously delivered to McCarthy Tétrault LLP);(v) all accounting books and records for the year ended August 31, 2013 and the interim period ending September 30, 2013, including, without limitation, the general ledger, trial balances, all sub ledgers, all excel work sheets and other work product used to support accounting balances and/or note financial statement note disclosure and all working papers prepared for KPMG LLP to complete the Fund's fiscal 2013 financial statement audit; (vi) all records relating to any investment held by the Fund in any portfolio company or otherwise, including, without limitation, contact information for all investee companies of the Fund and their respective securityholders; (vii) the identity, contact name, telephone number and email address of all third party suppliers who provide services to the Fund, GWC or any of their respective affiliates to assist the Manager with its obligations under the Management Agreement, including, without limitation, auditors, valuators, shareholder recordkeeping service providers, technology licensors, and commissions payable service providers; (viii) all tax records; (ix) all bank account and related records; and (vii) all brokerage or similar account and related records).

Yours truly,

GrowthWorks Canadian Fund Ltd.

C. Ian Ross
Chairman

Exhibit "A"

British Columbia Securities Commission

By email

April 16, 2013

File #119978

David Levi
David Balsdon
Growth Works Capital Ltd.
2600 – 1055 West Georgia Street
Vancouver, BC V6E 3R5

Dear Messrs Levi and Balsdon:

Growth Works Capital Ltd. (GWC) - Compliance Examination

We provide you the results of our most recent compliance field examination. The purpose of our examination was to assess your overall business conduct, system of compliance, and internal controls against the regulatory requirements of BC's securities legislation.

This exam report describes weaknesses we identified in GWC's system of compliance procedures and internal controls. In this letter, we use *GWC* to mean Growth Works Capital Ltd. and Growth Works WV Management Ltd, as Growth Works Capital Ltd. conducts registerable activities for Growth Works WV Management Ltd.

We identified nine significant deficiencies, which are set out in this letter. We cite the relevant rules and requirements in the *Securities Act* [RSBC 1996] Chapter 418 (Act), the *Securities Rules* B.C. Reg. 194/97 (Rules), and National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) in Appendix A.

We have significant concerns about GWC's conduct as a portfolio manager and an investment fund manager. We are considering further regulatory action.

In the interim, we propose that GWC and Working Opportunity Fund (EVCC) Ltd. (WOF) provide us with undertakings pursuant to section 57.6 of the *Act*. Copies of the undertakings are attached to this letter. We request that signed copies of these undertakings be returned to us by **April 26, 2013**.

We also require, in the interim, that GWC respond in writing **by May 15, 2013** with its plans (including timelines) to ensure that the deficiencies cited in this letter are not repeated and to ensure, that GWC has a substantive culture of compliance in which serious issues are flagged and dealt with appropriately.

We thank you for your cooperation during the examination. Please contact us if you have any questions.

Yours truly,

Jason Chan
Apr 16 2013 2:06 PM

Jason Chan, CA, CFA
Compliance Examiner,
Capital Markets Regulation

Jonathan Lee
Apr 16 2013 2:09 PM

Jonathan Lee, CA
Compliance Examiner,
Capital Markets Regulation

cc: Sandra Jakab, Director, Capital Markets Regulation
Michael Sorbo, Manager, Adviser/IFM Compliance, Capital Markets Regulation
Janice Leung, Lead Examiner, Adviser/IFM Compliance, Capital Markets Regulation
Lindy Bremner, Senior Legal Counsel, Capital Markets Regulation

BCSC

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1.0 WOF

1.1 WOF's loan of $9.5 million to the Canadian Fund—Significant deficiencies

GWC recommended that WOF lend $9.5 million to GrowthWorks Canadian Fund Ltd. (Canadian Fund) at an interest rate of 12% for a term of 12-months (WOF loan). The WOF loan is an investment, WOF received a note from Canadian Fund. See memos from GWC to WOF dated January 17, 2011, January 25, 2011 and February 3, 2011 recommending the WOF loan, the terms of the WOF loan and structure of the WOF loan. WOF's financial statements for the period ending December 31, 2011, show the investment as a "directed funds" investment of WOF's Growth and Balanced Venture Series share classes.

The points below set out what was wrong with this recommendation.

1.1.1 GWC breached its statutory fiduciary duty to WOF

In breach of section 125 of the Act, GWC did not exercise the powers and discharge the duties of its office in the best interests of WOF, nor did GWC exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

GWC's recommendation to make the WOF loan was not in the best interests of WOF:

- Outside investment objectives

The WOF loan was not within WOF's investment objectives for the directed funds and accordingly GWC's recommendation to make the WOF loan was not in the best interest of WOF. WOF's simplified prospectus dated November 17, 2010 (2010 prospectus) sets out the investment objectives for WOF's Growth and Balanced Venture Series share classes:

  - Page 14 of the 2010 prospectus explains that directed funds investments are "to provide significant liquidity and further investment diversification". The WOF loan did not provide liquidity. Nor would a reasonably prudent person have expected it to given the borrower's distressed financial circumstances. It caused a significant liquidity shortfall, requiring WOF to borrow $12 million on December 23, 2011. It also contributed to WOF halting redemptions on November 2, 2012.

  - Page 14 of the 2010 prospectus explains directed funds investments are generally not venture capital investments, because they provide liquidity and investment diversification. The WOF loan increased WOF's exposure to venture investments because its collectability was contingent on the Canadian Fund's ability to dispose of venture investments. Due to the difficulties Canadian Fund experienced in disposing of venture investments, repayment of the WOF loan had to be extended three times.

- Page 17 of the 2010 prospectus provides that directed funds for the Balanced Venture Series share class may be "high yield investments". However, the specific examples listed in the 2010 prospectus, such as bonds and securities or real estate investment trusts and power and pipeline income funds, are not equivalencies to the WOF loan.

- Page 17 of the 2010 prospectus provides that directed funds for the Growth Venture Series share class may be funds or pools of publically traded Canadian shares or equity securities. However, the specific examples listed in the 2010 prospectus, such as index funds that invest in component securities of broad market indexes like the S&P/ TSX Composite Index, are not equivalencies to the WOF loan.

A reasonably prudent person would ensure that any directed funds investment fit within the investment objectives specified in the 2010 prospectus, including providing significant liquidity and further investment diversification. That would demonstrate the exercise of a degree of care, diligence and skill in ensuring the investment was appropriate, met WOF's needs and addressed the risks WOF required directed funds to offset.

- Discounted rate

The interest rate on the WOF loan was at a substantial discount to market rate and accordingly GWC's recommendation to make the WOF loan was not in the best interests of WOF.

A reasonably prudent person, before recommending the WOF loan would have conducted substantial research to assess the appropriate rate of interest. That would demonstrate the exercise of a degree of care in ensuring the interest rate was reasonable, diligence in gathering information to support the interest rate, and skill in setting the interest rate. Instead, GWC's research about general interest rates offered by lenders was not relevant considering the distressed circumstances of the borrower. The initial interest rate on the WOF loan was set at 12% in March 2011, which was not an appropriate rate:

- It was much lower than the 28.5%[1] interest rate that Canadian Fund was paying to a third party lender, Roseway Capital L.P. (Roseway) on a loan made on May 28, 2010 (Roseway loan).[2]

- Canadian Fund was unable to obtain financing at 12% from other parties. At the same time as GWC was attempting to secure the WOF loan, it was seeking

[1] Note - based on an annual $5.7 million minimum participation interest payment over the $20 million loan
[2] Note - Roseway had priority over a $36 million portfolio of securities of the Canadian Fund and WOF had priority on the remaining portfolio assets of Canadian Fund. Compliance staff are of the view the overall terms of the two loans do not justify the lower rate on the WOF loan.

longer-term credit facilities at similar rates, which did not materialize. The comparables cited in the memo from GWC to WOF dated January 25, 2011 are not specific to Canadian Fund or even other entities in a similar financial position. Further, from the fall of 2011 through the spring of 2012, Canadian Fund sought financing from several third-party lenders, but none were interested. In May of 2012, Canadian Fund secured third-party financing at a rate of 18% for the first year, increasing to 20% thereafter[3].

- When one compares the terms of the WOF loan to those of Canadian Fund's other borrowings (fees and security), the lower rate on the WOF loan is not justified.

- On December 23, 2011, WOF faced its own liquidity issues and had to borrow $15 million at an interest rate of 15%. The interest rate on the WOF loan should have been higher than 12%, given WOF borrowed at 15% and it was in a better financial position. The net asset coverage ratio of WOF as at December 31, 2011 was 17.97. The net asset coverage ratio of Canadian Fund as at February 28, 2011 was only 5.14[4].

If GWC exercised the degree of care, diligence and skill that a reasonably prudent person would exercise in recommending the WOF loan, the interest rate would not have been less than the Roseway loan and rates available from other third-parties. Further, it would not have set the rate at a level that required WOF to subsidize the loan through its own borrowing at higher rates.

GWC violated section 2, chapter 3 of its policies and procedures manual (PPM). The PPM requires GWC to act "in the best interest of an investment fund managed by GrowthWorks". In violating the provisions of its PPM, GWC also breached section 11.1 of NI 31-103. Section 11.1 of NI 31-103 required GWC to apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices.

Regulation
Section 125 of the Act
Section 11.1 of NI 31-103

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[3] Note – in a letter to the Ontario Securities Commission dated June 22, 2012, Canadian Fund described its attempts to obtain third-party financing over this period. Due to the distressed financial condition of Canadian Fund, the loan eventually secured was made to GWC's parent, Matrix Asset Management Inc., who in turn lent the money to Canadian Fund on identical terms. This structure gave the third-party lender a guarantee that WOF did not have.

[4] Note - these figures were calculated from publically available documents. This is a measure that is used by other lenders, including Roseway.

1.1.2 Unsuitable sale of investments

In breach of section 13.3 of NI 31-103, GWC did not take reasonable steps to ensure that before it made a purchase or sale of a security for WOF's managed account, the purchase or sale was suitable for WOF.

On May 18, 2011, GWC as portfolio manager for WOF, invested $9.5 million in the managed account it operated for WOF. The WOF loan is an investment, Canadian Fund issued a note to WOF. The investment is a directed funds investment of WOF's Growth and Balanced Venture Series share classes.

In order for WOF to make this investment, GWC sold suitable directed funds investments of WOF's Growth and Balanced Venture Series share classes for cash. According to WOF's December 31, 2010 annual financial statements, the Growth and Balanced Venture Series were fully invested, each with less than 1% cash on hand. During 2011, GWC sold 98% and 91% of the Growth and Balanced Venture Series' directed funds investments respectively according to WOF's December 31, 2011 annual financial statements. The disposed investments included bonds, Canadian listed equities, trust units, and bank securities. These investments met the directed funds investment objectives of the Growth and Balanced Venture Series to provide significant liquidity and further investment diversification, as stated in the 2010 prospectus.

The investment in the WOF loan was unsuitable as a directed funds investment for WOF's Growth and Balanced Venture Series share classes. It did not meet the investment objectives to provide significant liquidity and further investment diversification, as described in point 1.1.1 above.

GWC's decision to sell investments in order to raise cash to invest in the WOF loan was unsuitable because:

- The $9.5 million note is not publicly traded and has less liquidity compared to the triple-A rated bonds and listed equities[5] that the Growth and Balanced Venture Series previously held.
- As at December 31, 2011, the note made up 94% and 62% of directed funds investments of the Growth and Balanced Venture Series and accordingly the portfolios were less diversified.
- The directed funds investments of the Growth and Balanced Venture Series no longer met their investment objectives as set out in the 2010 prospectus.

GWC violated section 3, chapter 3 of its PPM. The PPM requires GWC to "know and abide by the mandate set forth in the specific portfolio's prospectus". In violating the provisions of its PPM, GWC also breached section 11.1 of NI 31-103. Section 11.1 of NI 31-103, required GWC to apply policies and procedures that establish a system of

[5] Note – this information comes from the financial statements.

controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices.

Regulation
Section 13.3 of NI-31-103
Section 11.1 of NI 31-103

1.1.3 Conflicts of interest

In breach of section 13.4 of NI 31-103, GWC did not take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that in its reasonable opinion would expect to arise, between itself, and each individual acting on its behalf, and WOF. Further, it failed to appropriately respond to these existing or potential conflicts of interest.

Section 13.4 of 31-103CP provides that a conflict of interest is any circumstance where the interests of a client and those of a registrant are inconsistent or divergent. GWC was in such a conflict of interest with WOF in recommending the WOF loan. Recommending the WOF loan breached GWC's duties to WOF under section 125 of the Act (as described in point 1.1.1 above). However, securing the WOF loan was in GWC's interest. It allowed Canadian Fund to sustain operations and in turn, GWC was able to collect accrued management fees and continued to earn management fees.

NI 31-103CP specifies three methods for responding to conflicts of interest: avoidance, control and disclosure. It states registrants should avoid the conflict if it is sufficiently contrary to the interests of a client. Recommending the WOF loan breached GWC's best interest duty to WOF (as described in point 1.1.1 above). Accordingly, recommending the WOF loan was sufficiently contrary to the interest of WOF that GWC needed to avoid the conflict entirely. It was not possible to respond to conflict using controls or disclosures.

GWC violated the conflicts policy in section 2, chapter 3 of its PPM. The PPM requires GWC to avoid any activities, interest or associations, which might interfere or give the appearance of interference with the independent exercise of their judgment, in the best interest of its managed funds. In violating the provisions of its PPM, GWC also breached section 11.1 of NI 31-103. Section 11.1 of NI 31-103, required GWC to apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices.

Regulation
Section 13.4 of NI-31-103
Section 11.1 of NI 31-103

1.2 WOF's inter-series balance—Significant deficiencies

WOF has two series of share classes, the venture series (Venture series) and the commercialization series (Comm series). Under National Instrument 81-106 *Investment Fund Continuous Disclosure,* the Venture series and the Comm series are treated as separate investment funds because each has a separate portfolio of assets. Accordingly, GWC as an investment fund manager and portfolio manager of WOF owed separate obligations to each of the Venture series and Comm series.

GWC as the investment fund manager of WOF facilitated inter-series lending from the Comm series to the Venture series. As at June 30, 2012, the Comm Series had an inter-series receivable balance of $18.9 million from the Venture series. This inter-series receivable has been steadily increasing since June 30, 2011 both in terms amount and as a percentage of the Comm series NAV. On June 30, 2011, it represented 27.5% of the NAV, by December 31, 2011, it represented 31% of NAV and by June 30, 2012, it had risen to 60% of NAV. The effect of the inter-series receivable is that the Comm series is lending cash equivalent to 60% of its NAV to the Venture series.

Based on the Comm's series' 2012 interim financial statements, during the six months ending June 30, 2012:

- GWC disposed all of Comm series' non-venture investments such as bonds, deposits and income notes.
- GWC transferred 100% of the $5,869,761 proceeds from disposing portfolio assets to the Venture series.
- Comm series raised $7,143,817 from investors by issuing new shares, GWC transferred 82% of these proceeds, or $5,924,047 to the Ventures series.
- GWC used no proceeds from the sale of new Comm series shares to purchase portfolio investments.

As noted below in point 1.2.3, the sale of Comm Series investments in order to raise cash for inter-series transfers to Venture Series resulted in the Comm series having no directed funds investment as at June 30, 2012 and, therefore, it was no longer meeting its investment objectives as set out in the July 8, 2011 simplified prospectus of WOF (2011 prospectus).

The points below set out what was wrong with the inter-series transfers.

1.2.1 Standard of care to WOF

In breach of section 125 of the Act, GWC did not exercise the powers and discharge the duties of its office in the best interests of the Comm series, nor did GWC exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

GWC facilitating the inter-series transfers was not in the best interests of the Comm Series:

- Disposing of non-venture assets

Disposing of all of Comm series' non-venture investments such as bonds, deposits and income notes to free up cash to make inter-series transfers resulted in the Comm series portfolio not holding any non-venture investments. Pursuant to page 14 of the 2011 prospectus the purpose of non-venture investments is to provide significant liquidity and further investment diversification. The diversion of these funds to the Venture series does not reflect this purpose and accordingly was not in the best interest of the Comm series.

A reasonably prudent person would retain non-venture investments to ensure significant liquidity and further investment diversification for the Comm series. That would demonstrate the exercise of a degree of care, diligence and skill in managing the Comm series' risk profile.

- Disposing of investments

After the disposal of $5,869,761 in portfolio assets to free up cash to make inter-series transfers, the Comm series no longer met the investment objectives set out in the 2011 prospectus. In fact, it resulted in a significant reduction in portfolio assets invested and accordingly was not in the best interest of the Comm series.

A reasonably prudent person would retain portfolio assets in investments, in accordance with the 2011 prospectus. That would demonstrate the exercise of a degree of care, diligence and skill in managing the Comm series' risk profile.

- Using proceeds from the sale of Comm series shares.

GWC transferred $5,924,047 in proceeds from the sale of Comm series shares, representing 82% of proceeds raised during the 6-month period ending June 30, 2012, to the Venture series. This resulted in the Comm series not investing the proceeds in accordance with the 2011 prospectus and accordingly was not in the best interest of the Comm series.

A reasonably prudent person would invest proceeds, in accordance with the 2011 prospectus. Allowing the Comm series to use the 2011 prospectus to raise money from the public and not following the investment objectives set out in the 2011 prospectus, demonstrates a lack of care, diligence and skill in managing the Comm series.

- Failing to purchase investments

GWC used no proceeds from the sale of Comm series shares during the 6-month period ending June 30, 2012 to purchase portfolio investments in accordance with the 2011 prospectus. This was not in the best interest of the Comm series.

A reasonably prudent person would invest proceeds raised from the sale of shares in the Comm series. That would demonstrate the exercise of a degree of care, diligence and skill in managing the Comm series. Again, allowing the Comm series to use the 2011 prospectus to raise money from the public and then not following the investment objectives set out in the 2011 prospectus, demonstrates a lack of care, diligence and skill in managing the Comm series.

- Quantum of inter-series receivable

The material growing balance, percentage it represented of the Comm series NAV and the long outstanding period of the inter-series receivable increased the Comm series' risk profile. Comm series gained additional exposure to venture investments as the collectability of the inter-series receivable from the Venture series largely depended on the success of the Venture series' investments. Having such a large portion of its NAV lent to the Venture series and this additional exposure to venture investments was not in the best interest of the Comm series.

A reasonably prudent person would closely monitor receivables and ensure they did not comprise a significant portion of fund's NAV. That would demonstrate the exercise of a degree of care in ensuring the fund met its overall target asset mix and mandate. It would also demonstrate the exercise of diligence and skill in monitoring the Comm series' risk profile. Over the period from June 30, 2011 to June 30, 2012, the inter-series receivable increased from $6.2 million to $18.89 million, representing an increase in the percentage of the Comm series NAV from 27.5% to 60% of the NAV. Allowing this to occur, demonstrates a lack of care, diligence, and skill in managing the Comm series.

GWC violated section 2, chapter 3 of its PPM. The PPM requires GWC to act "in the best interest of an investment fund managed by GrowthWorks". In violating the provisions of its PPM, GWC also breached section 11.1 of NI 31-103. Section 11.1 of NI 31-103, required GWC to apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices.

Regulation
Section 125 of the Act
Section 11.1 of NI 31-103

1.2.2 Conflicts of interest

In breach of section 13.4 of NI 31-103, GWC did not take reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that in its reasonable opinion would expect to arise, between itself, and each individual acting on its behalf, and the Comm series. Further, it failed to appropriately respond to these existing or potential conflicts of interest.

Section 13.4 of 31-103CP provides that a conflict of interest is any circumstance where the interests of a client and those of a registrant are inconsistent or divergent. GWC was in such a conflict of interest with Comm series in carrying out the inter-series transfers.

Carrying out the inter-series transfers breached GWC's duties to the Comm series under section 125 of the Act (as described in point 1.2.1 above). However, the inter-series transfers were in GWC's interest. The inter-series transfers funded Venture series redemptions. According to WOF's June 2012 interim financial statements, if the Comm series did not transfer funds to the Venture series, the Venture series would not have generated sufficient cashflow to meet redemptions during the six months ended June 30, 2012[6]. If the Venture series was unable to meet redemptions, it would have had a negative impact on GWC because it would have hampered the sale of any new units of WOF and possibly other investment funds managed by GWC. By loaning from the Comm series to the Venture series, WOF delayed making the Venture series' cashflow issues public, which helped WOF and possibly other investment funds managed by GWC to continue raising new money. The new money raised for WOF increased the WOF assets under management by $10,000,000 and, accordingly, the fees earned by GWC.

NI 31-103CP specifies three methods for responding to conflicts of interest: avoidance, control and disclosure. It states registrants should avoid the conflict if it is sufficiently contrary to the interests of a client. Carrying out the inter-series transfers breached GWC's best interest duty to Comm series (as described in point 1.2.1 above). Accordingly, carrying out the inter-series transfers was sufficiently contrary to the interest of WOF that GWC needed to avoid the conflict entirely. It was not possible to respond to conflict using controls or disclosures.

GWC violated the conflicts policy in section 2, chapter 3 of its PPM. The PPM requires GWC to avoid any activities, interest or associations, which might interfere or give the appearance of interference with the independent exercise of their judgment, in the best interest of its managed funds. In violating the provisions of its PPM, GWC also breached section 11.1 of NI 31-103. Section 11.1 of NI 31-103, required GWC to apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices.

Regulation
Section 13.4 of NI 31-103
Section 11.1 of NI 31-103

[6] Note - derived this from the relevant cashflow statements.

1.2.3 Unsuitable sale of investments

In breach of section 13.3 of NI 31-103, GWC did not take reasonable steps to ensure that before it makes a purchase or sale of a security for WOF's managed account, the purchase or sale is suitable for WOF.

GWC as the portfolio manager for WOF did not take reasonable steps to assess suitability when it sold off all the Comm series directed funds investments and transferred the cash to the Venture series. Prior to this divestment, the directed funds investments of the Comm series consisted of bonds and income notes[7]. Those investments were suitable because they met the investment objectives to provide significant liquidity and further investment diversification, as described on page 14 of the 2011 prospectus. Following the sale of these directed funds investments, the Comm series no longer held any directed funds investments that provided significant liquidity and further investment diversification.

GWC's decision to sell Comm Series investments in order to raise cash for inter-series transfers to Venture Series was unsuitable because:

- The Comm series had no directed funds investment as at June 30, 2012 and, therefore, no longer met its investment objectives as set out in the 2011 prospectus.
- The Comm series no longer had any directed funds investments to diversify the risks of venture investments. Without any directed funds investments, the risk profile of the Comm series increased due to the lack of diversification.

GWC violated section 3, chapter 3 of its PPM. The PPM requires GWC to "know and abide by the mandate set forth in the specific portfolio's prospectus". In violating the provisions of its PPM, GWC also breached section 11.1 of NI 31-103. Section 11.1 of NI 31-103, required GWC to apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices.

Regulation
Section 13.3 of NI-31-103
Section 11.1 of NI 31-103

2.0 The Growthworks Canadian Fund (Canadian Fund)

2.1 The handling of Canadian Fund's distressed financial situation and related party and external financing—Significant deficiencies

Since 2010, the Canadian Fund has been in a distressed financial situation. The Canadian Fund:

[7] Note - assessed based on the financial statements.

- Failed to make sufficient divestments to generate cash for daily operations in 2011 and 2012
- Experienced liquidity and cashflow difficulties
- Halted unitholder redemptions on November 10, 2011
- Accrued management fees and other costs, which increased current liabilities significantly
- Borrowed $4 million in May 2012, and most of the proceeds were used to pay accrued management fees to GWC and to repay a portion of the existing loan to Roseway
- Incurred high costs on $33.5 million of loans at interest rates between 12% to 28.5%

Pursuant to a service agreement between GWC and GrowthWorks WV Management Ltd. (an affiliate of GWC), GWC conducts substantially all of the investment fund manager activities for the Canadian Fund and is accordingly, an investment fund manager of Canadian Fund. GWC recommended the Canadian Fund borrow:

- $20 million from Roseway, memo from GWC dated April 27, 2010
- $9.5 million from WOF, memo from GWC dated February 22, 2011
- $4 million from GrowthPoint Capital Corp. (GrowthPoint), memo from GWC dated May 10, 2012

The points below set out what was wrong with GWC's handling of Canadian Fund's distressed financial situation and its recommendations to leverage.

2.1.1 GWC breached its fiduciary duty to the Canadian Fund

In breach of section 125 of the Act, GWC did not exercise the powers and discharge the duties of its office in the best interests of the Canadian Fund, nor did GWC exercise the degree of care, diligence, and skill that a reasonably prudent person would exercise in the circumstances

GWC's failure to consider all the scenarios and actions for dealing with the Canadian Fund's distressed financial situation was not in the best interests of the fund:

- Failure to consider wind down

Despite the Canadian Fund's deteriorating financial situation since 2010, GWC did not assess on an ongoing basis the impact of winding down the fund versus maintaining the fund and continuing to incur the costs of operation.

In October 2012, in the context of a review of the Canadian Fund's request to extend the redemption halt, BCSC staff asked GWC to confirm if it has considered wind down scenarios for the fund. GWC prepared a wind down scenario in October 2012 for BCSC staff. The scenario prepared in response to the BCSC's request was overly simple, did not articulate all underlying assumptions, and assumed exiting all investments in one year –

an unrealistic assessment. GWC had no records demonstrating that it had considered a wind down scenario prior to the BCSC staff request.

A reasonably prudent person would have considered the possibility and impact of a wind down scenario on an ongoing basis after the fund ran into liquidity issues and exit difficulties in 2010. That would demonstrate the exercise of a degree of care in considering the ongoing viability of the fund. It would also demonstrate the exercise of diligence and skill in gathering and testing internal and external factors that may affect the fund's viability, particularly when a fund is in financial distress

- Failure to consider wind down over leveraging

GWC did not assess the impact of leveraging the Canadian Fund versus winding down the fund, when recommending it borrow.

During fieldwork, BCSC staff asked GWC to provide records demonstrating it considered wind down scenarios each time it recommended borrowing. GWC provided the October 2012 wind down analysis described above. GWC provided no other records to demonstrate that it had considered a wind down scenario at any other time, including when it recommended the borrowing.

A reasonably prudent person would consider the possibility and impact of a wind down scenario before recommending a financially distressed fund borrow and incur more liabilities. That would demonstrate the exercise of a degree of care in ensuring all appropriate alternatives were considered. It would also demonstrate the exercise of diligence in gathering information to assess each alternative. Finally, it would demonstrate the exercise of skill in choosing the most appropriate outcome, given the financial distress of the fund.

GWC violated section 2, chapter 3 of its PPM. The PPM requires GWC to act "in the best interest of an investment fund managed by GrowthWorks". In violating the provisions of its PPM, GWC also breached section 11.1 of NI 31-103. Section 11.1 of NI 31-103, required GWC to apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices.

Regulation
Section 125 of the Act
Section 11.1 of NI 31-103

2.1.2 Fair dealing

In breach of Section 14 of the Rules, GWC did not deal fairly with the Canadian Fund.

GWC did not deal fairly when recommending the Canadian Fund borrow $33.5 million over the period May 2010 to May 2012:

- Maintaining operations to earn fees

By recommending the Canadian Fund borrow, GWC was able to obtain funds necessary to sustain the operations of the Canadian Fund and continue to earn management fees. According to the Canadian Fund's 2011 and 2012 annual audited financial statements, it paid $18.56 million of fees (including management fees, administration fees, and capital retention fees) to GWC. During most of that same period, the Canadian Fund remained halted and the unitholders could not redeem their matured units for cash.

- Borrowing to fund payment of accrued fees

On the recommendation of GWC, Canadian Fund was borrowing at interest rates ranging from 12% to 28.5%. The high cost of this borrowing only worsened the already distressed financial position of Canadian Fund and lessened the likelihood that any monies realized from divestments would be available to resume unitholder redemptions. As described in point 2.1.1 above, GWC breached its fiduciary duty to the Canadian Fund by not considering a wind down scenario before recommending the fund borrow. By not considering a wind down scenario, GWC was able to collect its accrued fees from the financing proceeds. In a wind down, GWC may not have been paid ahead of some of Canadian Fund's other obligations. On May 18, 2012, Canadian Fund obtained a $4 million loan from GrowthPoint. In that same month, it paid GWC $3.25 million in accrued fees[8].

GWC violated section 2, chapter 3 of its PPM. The PPM requires GWC to avoid any activities, interest or associations, which might interfere or give the appearance of interference with the independent exercise of their judgment, in the best interest of its managed funds. As GWC did not deal fairly when recommending the Canadian Fund borrow $33.5 million over the period May 2010 to May 2012, it violated its PPM. In violating the provisions of its PPM, GWC also breached section 11.1 of NI 31-103. Section 11.1 of NI 31-103, required GWC to apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with its business in accordance with prudent business practices.

Regulation

Section 14 of the Rules
Section 11.1 of NI 31-103

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[8] Note - the general ledger for May 2012 shows: May 3 - $1 million to GWC for accrued fees; May 18 - $4 million from GrowthPoint (loan advance); May 18 - $1.65 million to GWC for accrued fees.

3.0 Compliance and supervision

3.1 Compliance system—Significant deficiency

In breach of Section 11.1 of NI 31-103, GWC failed to establish, maintain, and apply policies and procedures that establish a system of controls and supervision sufficient to provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation and manage the risks associated with its business in accordance with prudent business practices.

The points below set out why GWC's compliance system failed.

GWC established and maintained a PPM that sets out:

- fiduciary duties owed to clients (Section II Staff Conduct, Chapter 1 Guidelines for Business Conduct, point 1.2 Ethical Standards on page 25 of the PPM);
- suitability obligations with respect to the operation of a client's managed account (Section IV Sales Compliance, Chapter 1 Trade Suitability, Obligation and Application on page 92 of the PPM; and Section III Trading and Portfolio Management, Chapter 3 Portfolio Management, point 3.2 Investment Objectives, Strategies and Restrictions-Venture Capital Division on page 80 of the PPM);
- conflicts of interest obligations (Section II Staff Conduct, Chapter 1 Guidelines for business conducts, point 1.7 Conflicts of Interest on page 26 of the PPM; Section II Staff Conduct, Chapter 3 Conflicts of Interest on page 35 of the PPM; and Section III Trading and Portfolio Management, Chapter 3 Portfolio Management on page 77 of the PPM); and
- fair dealing obligations (Section II Staff Conduct, Chapter 1 Guidelines for Business Conduct, point 1.2 Ethical Standards on page 24 of the PPM).

GWC failed to apply these policies and procedures to ensure a system of controls and supervision sufficient to provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation. GWC breached its:

- statutory fiduciary duty under section 125 of the Act by:
    - recommending the WOF loan as described in point 1.1.1 above
    - facilitating the inter-series transfers as described in point 1.2.1 above
    - failing to consider all scenarios and actions for dealing with Canadian Fund's distressed financial condition, as described in point 2.1.1 above
- suitability obligations under section 13.3 of NI 31-103 by:
    - selling suitable investments in order to invest in the WOF loan which was unsuitable, as described in point 1.1.2 above
    - selling suitable investments to facilitate the inter-series transfers, as described in point 1.2.3 above.

- conflict of interest obligations under section 13.4 of NI 31-103 by:
  - recommending the WOF loan, as described in point 1.1.3 above
  - carrying out the inter-series transfers, as described in point 1.2.2 above
- fair dealing obligations under section 14 of the Rules when recommending the Canadian Fund borrow $33.5 million over the period from May 2010 to May 2012, as described in point 2.1.2 above.

Properly applied policies and procedures that manage the risks associated with a registrant's business in accordance with prudent business practices would have prevented the breaches listed above.

The failures in GWC's compliance system described above, also demonstrate that:

- David Levi, the Ultimate Designated Person for GWC breached his obligations under section 5.1 of NI 31-103 by failing to supervise the activities of the firm directed to ensuring compliance with securities legislation by GWC and each individual acting on its behalf
- David Balsdon, Chief Compliance Officer for GWC breached his obligations under section 5.2 of NI 31-103 by failing to assess compliance by GWC and individuals acting on its behalf with securities legislation

Regulations
Section 11.1 of NI 31-103
Section 5.1 of NI 31-103
Section 5.2 of NI 31-103

As we indicated above, this letter sets out the significant deficiencies we identified. We identified a number of additional deficiencies, which will be set out in a separate letter.

Appendix A

Section 125 of the Act states that every investment fund manager must exercise the powers and discharge the duties in the best interests of the investment fund, and exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

Section 14 of the Rules states that a registrant must deal fairly, honestly and in good faith with the clients of the registrant.

Section 5.1 *Responsibilities of the ultimate designated person* of NI 31-103 requires the ultimate designated person to:

a. supervise the activities of the firm that are directed towards ensuring compliance with securities legislation by the firm and each individual acting on the firm's behalf
b. promote compliance by the firm, and individuals acting on its behalf, with securities legislation

Section 5.2 of NI 31-103 *Responsibilities of the chief compliance officer* requires the chief compliance officer to:

a. establish and maintain policies and procedures for assessing compliance by the firm and individuals acting on its behalf, with securities legislation
b. monitor and assess compliance by the firm, and individuals acting on its behalf, with securities legislation

Section 11.1 *Compliance system* of NI 31-103 requires registered firms to establish, maintain, and apply policies and procedures that establish a system of controls and supervision sufficient to:

a. provide reasonable assurance that the firm and each individual acting on its behalf complies with the securities legislation
b. manage the risks associated with its business in accordance with prudent business practices.

Section 13.3 *Suitability* of NI 31-103 requires a registrant to take reasonable steps to ensure that, before it makes a recommendation to or accepts an instruction from a client to buy or sell a security, or makes a purchase or sale of a security for a client's managed account, the purchase or sale is suitable for the client.

Section 13.4 *Identifying and responding to conflicts of interest* of NI 31-103 requires a registrant to take reasonable steps to identify existing material conflicts of interest, and material conflicts of interested that the registered firm in its reasonable opinion would expect to arise, between the firm, including each individual acting on the firm's behalf, and a client. A registrant must respond to an existing or potential conflict of interest.

Exhibit "B"

British Columbia Securities Commission

By email

April 30, 2013

File #119978

David Levi
David Balsdon
Growth Works Capital Ltd.
2600 – 1055 West Georgia Street
Vancouver, BC V6E 3R5

Dear Messrs Levi and Balsdon:

Growth Works Capital Ltd. (GWC) - Compliance Examination

Further to our letter of April 16, 2013, we provide you the additional results of our most recent compliance field examination. The purpose of our examination was to assess your overall business conduct, system of compliance, and internal controls against the regulatory requirements of BC's securities legislation.

This exam report describes weaknesses we identified in GWC's system of compliance procedures and internal controls. In this letter, we use *GWC* to mean Growth Works Capital Ltd. and Growth Works WV Management Ltd, as Growth Works Capital Ltd. conducts registerable activities for Growth Works WV Management Ltd.

Significant deficiencies were identified during our review, which are outlined in this report. We cite the relevant rules and requirements in the *Securities Act* [RSBC 1996] Chapter 418 (Act), the *Securities Rules* B.C. Reg. 194/97 (Rules), and National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) in Appendix A.

Our concerns about GWC's conduct as a portfolio manager and an investment fund manager are serious, and we are considering further regulatory action.

We require GWC to respond in writing by **May 31, 2013** describing the steps you will take to resolve each item.

Under section 141.2(5) of the Act, the Executive Director may require a registrant to pay the costs of a compliance review. Examiners spent a total of 1,137 hours on GWC's review. The deficiencies we found are serious, and the review was complex. We are charging 20% of the exam time, 227.4 hours.

Item 26, section 22 of the *Securities Regulation,* BC Reg. 196/197 prescribes a fee of $100 per hour for each person involved in the compliance review. Our fee for GWC's compliance review is $22,740.

Please return the attached Fee Checklist, Form 11-901F *Securities Regulation Fee Checklist* (item 26), with your payment, by cheque, by **May 31, 2013**.

We thank you for your cooperation during the examination. Please contact us if you have any questions.

Yours truly,

Jason Chan, CA, CFA
Compliance Examiner
Capital Markets Regulation

Jonathan Lee, CA
Compliance Examiner
Capital Markets Regulation

cc: Sandra Jakab, Director, Capital Markets Regulation
Michael Sorbo, Manager, Adviser/IFM Compliance, Capital Markets Regulation
Janice Leung, Lead Examiner, Adviser/IFM Compliance, Capital Markets Regulation
Lindy Bremner, Senior Legal Counsel, Capital Markets Regulation

BCSC

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3.0 Compliance and supervision

3.1 Ultimate Designated Person (UDP)—Significant deficiency

As evidenced by the significant compliance deficiencies set in our April 16, 2013 letter, and this letter, GWC's UDP, David Levi, failed to meet his responsibilities to supervise and ensure compliance by the firm, and individuals acting on its behalf, with securities legislation.

Section 5.1 of NI 31-103 requires the UDP to supervise the activities of the firm directed to ensuring compliance with securities legislation and promote compliance by the firm and individuals acting on behalf of the firm with securities legislation.

Regulation
Section 5.1 of NI 31-103

3.2 Records

Your books and records are not maintained in a manner that can be readily provided.

GWC failed to provide the following records we requested in a reasonable time period:

- Email records

We first requested the email records of key registered personnel on November 5, 2012. We then reduced the scope of the request on November 29, 2012 and required the records by January 4, 2013. GWC provided some records on January 4, 2013, January 18, 2013, and the remaining records on January 25, 2013.

- Working Opportunity Fund (EVCC) (WOF) and Growthworks Canadian Fund (Canadian Fund) records

We requested records of WOF and the Canadian Fund on January 21, 2013 and required the records by January 28, 2013. GWC was not able to provide all the records until February 5, 2013.

Section 11.5(1) of NI 31-103 requires you to maintain records to accurately record your business activities, financial affairs and client transactions and to demonstrate the extent of your compliance with applicable requirements of securities legislation. Section 11.6(1) of NI 31-103 requires records to be kept in a manner that permits it to be provided to the regulator in a reasonable period of time.

Regulation
Section 11.5(1) of NI 31-103
Section 11.6(1) of NI 31-103

4.0 Marketing

4.1 Performance disclosures

We reviewed a sample of information sheets for the Matrix Funds, including the:

- Matrix Money Market Fund
- Matrix International Balanced Fund
- Matrix Monthly Pay Fund

The disclosures at the bottom of the information sheets briefly discuss that management fees may be associated with mutual fund investments. However, the disclosure fails to clarify if the performance figure presented is gross or net of management fees. The materials could mislead the funds to assume the figures are either gross or net and the assumption might be wrong.

Section 14 of the Rules requires you to deal fairly, honestly and in good faith with your clients. Your clients are the funds. GWC's marketing information must not be misleading either to the funds or to the dealers and financial services providers the funds send the marketing materials to.

Section 15.2(1)(a) *Sales Communications – General Requirements* of National Instrument 81-102 *Mutual Funds* (NI 81-102) states that no sales communication shall be untrue or misleading. You should ensure that all marketing materials provide appropriate disclosure when quoting performance returns. In addition, you should ensure that your marketing materials disclose whether performance returns are net or gross of fees and/or other expenses.

Regulation
Section 14 of the Rules
Section 15.2(1)(a) of NI 81-102

4.2 Unsubstantiated claims

We reviewed a template letter prepared for the funds and targeted to WOF investors. The title of the letter is, "Save up to $3,000 2012-2013."

The third paragraph of the template letter claims, "Save up to $3,000 on your taxes and get proven management performance from Western Canada's most experienced venture capital team."

The letter does not provide information to support the claims of "proven management performance" and "Western Canada's most experienced venture capital team."

Section 14 of the Rules requires you to deal fairly, honestly and in good faith with your clients, the funds. You must prepare accurate marketing documentation. It must not be misleading as it is distributed by the funds to a host of dealers and financial services providers. You should ensure that all claims made in your marketing materials regarding your services, skills and performance can be substantiated.

Section 15.2(1)(a) *Sales Communications – General Requirements* of National Instrument 81-102 *Mutual Funds* (NI 81-102) states that no sales communication shall be untrue or misleading.

Regulation
Section 14 of the Rules
Section 15.2(1)(a) of NI 81-102

4.3 Performance comparison—Significant deficiency

We reviewed a two-page, August 2012 information sheet for the Matrix Small Companies Fund.

On page one of the information sheet, there is a graph chart showing three indices for, respectively, the Russell 2000, the Dow Jones, and the NASDAQ Composite. The graph shows a comparison between the three indices over a 12-year period with the Russell 2000 outperforming the Dow Jones and NASDAQ Composite. The Russell 2000 is an index of small-cap companies within the US equity universe.

There is no graph in the chart to show the performance of the Matrix Small Companies Fund. The omission of a graph showing this fund's performance implies that an investor of the Matrix Small Companies Fund will achieve a similar performance as the Russell 2000 index. Matrix Small Companies Fund is not a fund that tracks Russell 2000 and its performance is different from Russell 2000.

This is misleading because the benchmarks, the comparison period and the performance of Russell 2000 index are not relevant to the fund.

Section 14 of the Rules requires you to deal fairly, honestly and in good faith with your clients, the funds. You must prepare accurate marketing documentation that you provide to your funds. Your marketing information must not be misleading as it is distributed by the funds to a host of dealers and financial services providers.

Section 15.3(1)(c) of NI 81-102 states that sales communication shall not compare the performance of a mutual fund or asset allocation service with the performance or change of any benchmark or investment unless it explains clearly any factors necessary to make the comparison fair and not misleading.

You should ensure that all marketing materials provide appropriate disclosure when using benchmarks as a comparison

Regulation
Section 14 of the Rules
Section 15.3(1)(c) of NI 81-102

4.4 Performance benchmarks

We reviewed a four-page, January 2012 WOF Fund Insights – Venture Series brochure. Page three of this brochure presents performance data for the various series of units for the WOF. The performance data is in a table and presents two sets of figures to include and exclude the benefits of tax credits to the performance of the WOF series of funds.

The performance data including tax credits references the NASDAQ Composite Index as a benchmark. The brochure fails to disclose the relevance of the NASDAQ Composite Index as a benchmark for the performance of the various WOF series, including tax credits.

The performance data, excluding tax credits, references the Globe Peer Index as a benchmark. The brochure fails to specify which of the over 50 Globe Peer Indices is the actual benchmark for the performance of the various WOF series, excluding tax credits. Your staff advised us that the index is the Globe Retail Venture Capital Peer Index. Your brochure fails to disclose the relevance of this benchmark for the performance of the WOF series, excluding tax credits.

Section 14 of the Rules requires you to deal fairly, honestly and in good faith with your clients, the funds. You must prepare accurate marketing documentation that you provide to your funds. Your marketing information must not be misleading as it is distributed by the funds to a host of dealers and financial services providers.

Section 15.3(1)(c) of NI 81-102 states that sales communication shall not compare the performance of a mutual fund or asset allocation service with the performance or change of any benchmark or investment unless it explains clearly any factors necessary to make the comparison fair and not misleading.

You should ensure that all marketing materials provide appropriate disclosure when using benchmarks and charts as a comparison

Regulation
Section 14 of the Rules
Section 15.3(1)(c) of NI 81-102

4.5 Misleading and overly promotional language—Significant deficiency

Two of your August 2012 marketing pieces targeted to investors with Tax Free Savings Accounts (TFSA), use overly promotional and unfair performance claims. The two marketing pieces are for the GW Commercialization Fund (GW Com) and the WOF Commercialization Series (WOF Com).

The GW Com piece claims, "Get up to $4,081 or 380% more."
The WOF Com piece claims, "Get up to $10,491.83 or 1214% more."

TFSA are not constrained savings accounts. To suggest they are by referring to a 1% interest rate is misleading. Furthermore, the two documents show and emphasize the possible tax credits and potential dividends available from the two respective products. The percentage claims are a calculation of the difference between the tax credits and/or dividends compared to a savings account paying 1% interest. Showing the percentage difference between the tax credits and/or dividends to the interest paid in a savings account is misleading and inappropriate.

A more accurate comparison is to use the total dollar value of the investments to the total dollar value of the savings accounts. We provide a table below showing the total dollar value difference and a more reasonable percentage difference.

Fund/Series	Fund $ Value	Savings Account $ Value	Difference in $	Difference in %
GW Com	$25,154.39	$21,073.27	$4,081.12	19%
WOF Com	$31,356.45	$20,864.63	$10,491.82	50%

Section 14 of the Rules requires you to deal fairly, honestly and in good faith with your clients, the funds. You must prepare accurate marketing documentation that you provide to your funds. Your marketing information must not be misleading as it is distributed by the funds to a host of dealers and financial services providers.

Section 15.3(1)(a) of NI 81-102 states that sales communication shall not compare the performance of a mutual fund or asset allocation service with the performance or change of any benchmark or investment unless it includes all facts that, if disclosed, would be likely to alter materially the conclusions reasonable drawn or implied by the comparison.

Section 15.3(1)(c) of NI 81-102 states that sales communication shall not compare the performance of a mutual fund or asset allocation service with the performance or change of any benchmark or investment unless it explains clearly any factors necessary to make the comparison fair and not misleading.

Regulation
Section 14 of the Rules
Section 15.3(1)(a) of NI 81-102
Section 15.3(1)(c) of NI 81-102

Appendix A

Section 5.1 *Responsibilities of the ultimate designated person* of NI 31-103 requires the ultimate designated person to:

a. supervise the activities of the firm that are directed towards ensuring compliance with securities legislation by the firm and each individual acting on the firm's behalf
b. promote compliance by the firm, and individuals acting on its behalf, with securities legislation

Section 11.5 (1) *General requirements for records* of NI 31-103 states that a registered firm must maintain records to accurately record its business activities, financial affairs, and client transactions, and demonstrate the extent of the firm's compliance with applicable requirements of securities legislation.

Section 11.6 (1) *Form, accessibility and retention of records* of NI 31-103 states that a registered firm must keep a record that is required to keep under securities legislation in a manner that permits it to be provided to the regulator in a reasonable period of time.

Section 14 of the Rules states that a registrant must deal fairly, honestly and in good faith the clients of the registrant.

Section 15.2(1)(a) *Sales Communications – General Requirements* of National Instrument 81-102 *Mutual Funds* (NI 81-102) states that no sales communication shall be untrue or misleading.

Section 15.3(1)(a) *Prohibited Disclosure in Sales Communications* of NI 81-102 states that sales communication shall not compare the performance of a mutual fund or asset allocation service with the performance or change of any benchmark or investment unless it includes all facts that, if disclosed, would be likely to alter materially the conclusions reasonable drawn or implied by the comparison.

Section 15.3(1)(c) *Prohibited Disclosure in Sales Communications* of NI 81-102 states that sales communication shall not compare the performance of a mutual fund or asset allocation service with the performance or change of any benchmark or investment unless it explains clearly any factors necessary to make the comparison fair and not misleading.

Exhibit "C"

Introductions.

Mr. Levi and Mr. Balsdon, I asked staff to book a meeting with you because, after reviewing your records and interviewing your staff, we have identified a number of significant compliance deficiencies. The most serious is that Growth Works failed to meet its fiduciary obligations to Canadian Fund and WOF.

I have two objectives today. They are to:

1. **explain to you at a high level why we have concluded that GWC breached its fiduciary duties to Canadian Fund and to WOF**

2. **propose a course of action to address our immediate concerns**

I don't want to spend time with you today debating whether our findings are or are not valid. I do want you to understand the basic rationale for our findings. And I do want you to understand what will alleviate our immediate concerns.

Immediately following the meeting, I will send you a detailed letter setting out our findings and the rationale for making them. At that time, you will have an opportunity to contact staff to clarify anything in the letter that is unclear to you.

Let's begin, then, with our findings. The fiduciary duty obligation for investment fund managers includes these elements:

- **acting in the best interests of the fund**
- **exercising the degree of care, diligence, and skill a reasonably prudent person would exercise in the circumstances**

These standards must be met in managing each separate fund. GWC owes this duty to each separate fund it manages.

Here is what we think GWC did that failed to meet these standards.

1. Canadian Fund

GWC did not, until the Commission asked you to do it, even consider whether winding down Canadian Fund might be a better option than continuing to borrow at very high rates of interest. We think a reasonably prudent person would not only have considered a wind down option, but would have discussed it with Canadian Fund's IRC and its board of directors. It would have been in the best interests of Canadian Fund for the IRC and board to have had options to choose from.

This failure to consider options not only breached GWC's fiduciary duty to Canadian Fund, it also breached GWC's own policies and procedures.

The recommendations that GWC made to Canadian Fund to borrow $33.5 million between May 2010 and May 2012 also did not meet the requirement that you deal fairly with the fund as it became more and more clearly distressed.

Finally, instead of it being in the best interests of Canadian Fund, the recommendations to borrow were in GWC's best interests. The leveraging enabled GWC to collect accrued management fees and to continue to collect fees for managing

Canadian Fund. At the same time, it put Canadian Fund in a position of having to put all its income stream towards loan repayments and management fees, rather than being able to engage in its core business. We think GWC preferred its interests to those of the fund.

2. WOF

WOF loan

GWC's recommendation to lend $9.5 million to Canadian Fund at 12% interest was not in WOF's best interests. Nor did the recommendation demonstrate the degree of care, diligence, and skill a reasonably prudent person would take in managing WOF.

This recommendation was off-side the investment objectives for "directed funds" investments as described in the prospectus for the Growth and Balanced Venture series (which made the loan to Canadian Fund). WOF sold suitable investments that provided the intended "significant liquidity and further diversification" and replaced those suitable investments with an unsuitable investment that was not liquid (because Canadian Fund was so distressed). This also exposed this series

of shares to even more venture volatility (because the loan was made to another, distressed venture fund).

This recommendation was made on terms considerably more favourable to Canadian Fund than an arm's length transaction would have been. We know this because other loans Canadian Fund was able to secure were made at rates considerably higher than the rate WOF offered. It may have been in Canadian Fund's interest to obtain this loan at a significantly more favourable rate than would have been available commercially, but it was not in WOF's best interest. Instead, it would have been in WOF's best interests to recommend investments that fit the "directed funds" purposes, as described in the prospectus.

Inter-series transfers

GWC's recommendation to make an inter-series transfer from the Commercialization series to the Venture series was also a breach of GWC's duty to the Comm series. It was not in the best interests of the Commercialization series to:

- **dispose of all its non-venture assets**

- **transfer 100% of that disposition to Venture**

- **then raise over $7 million in new capital from investors**

- **then transfer 82% of that capital raising effort to the Venture series**

GWC used no proceeds from this new capital to purchase portfolio investments. This left the Commercialization series with no directed funds investments at June 30, 2012. Therefore, the Commercialization series was no longer meeting its investment objectives as described in the prospectus.

3. Our findings

The findings we've made about GWC's management of Canadian Fund and WOF are serious. In particular, GWC's past recommendations have been terribly conflicted, on two levels.

First, GWC has failed to understand that it must consider the best interests of each fund (including each series of a larger fund) not [exclusively] the best interests, overall, of a related group of funds.

Second, GWC has failed to understand it is the only party that has clearly benefited from the recommendations it made and the decisions it took, thus preferring its own interests to the interests of its clients, the funds.

We are so concerned about the misconduct we have already observed that we think it is necessary to take steps to protect the Canadian Fund, WOF, and those funds' investors.

We are not, ourselves, venture fund managers. So, we do not intend to substitute our business judgement for GWC's. But we do intend to get some independence into this situation.

We propose this.

WOF and GWC will provide us with undertakings to do the things we think will mitigate the risks we are immediately concerned about. This course of action would give us the comfort we need about decisions that will be made for Canadian Fund and WOF over the next critical period.

Undertaking from WOF

The first undertaking would be from WOF not to conduct any transactions with Canadian Fund, including:

- **lending to it**
- **investing in it**
- **purchasing securities of it or**
- **selling portfolio assets of WOF to buy portfolio assets from Canadian Fund**

Undertakings from GWC

The second set of undertakings would be made by GWC. GWC would:

- **at its own cost (not to be passed on to any of the funds) retain an independent expert acceptable to me to prepare a written report about Canadian Fund's financial viability and the best course of action for Canadian Fund going forward**

- **provide that report to me and to the Canadian Fund Board**

- **refrain from recommending any transactions between Canadian Fund and other funds GWC manages**

- **provide additional financial reporting, including**
  - **monthly financial statements for Growth Works WV Management Ltd. and Growth Works Atlantic Ltd.**
  - **unaudited quarterly financial statements for Canadian Fund**
  - **monthly ledger, NAV, investments, and transactional information for Canadian Fund**

We ask that you return the signed undertakings to us by the end of business on Friday, April 26. The undertakings will be attached to the detailed letter I send you immediately after this meeting.

If GWC does not agree, the Commission could do other things.

1. Staff could recommend that I impose conditions on GWC's registration that would address our concerns. Such a proposal would trigger an opportunity for GWC to be heard. If, after hearing GWC, I decided to impose conditions and GWC disagreed with those conditions, you could ask for a hearing and review. The conditions themselves would be public, as they would be published through the National Registration Search database. But the hearing and review process is more visibly public as all such hearings are public in conducted before a Commission panel.

2. Staff could recommend issuing a Notice of Hearing, alleging misconduct, including the misconduct I've outlined today. Staff could, at the same time, ask the Commission to make a temporary order to achieve the same things the undertakings achieve, as that would address our immediate concerns by mitigating the risk of further breaches of the sort outlined today. The moment a Notice of Hearing is issued, the situation will, of course, be public.

It is important that you understand, as well, that although the undertakings would alleviate our immediate concerns, the Commission is not constrained in taking any other steps it thinks necessary in the public interest, including those discussed above.

Do you have questions about any of the information I've just provided to you?