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## OFFERING MEMORANDUM

Private Placement

Continuous Offering  
June 28, 2011



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# CGS RESOURCE FUND LTD.

*(formerly AGS Lawrence Resource Fund Ltd.)*

Series A Shares & Series F Shares

*The distribution of these securities in Canada is being made on a private placement basis only and is exempt from the requirement that the issuer prepare and file a prospectus with the relevant Canadian securities regulatory authorities. Accordingly, any resale of these securities must be made in accordance with applicable Canadian securities laws, which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with exemptions from registration and prospectus requirements. Investors are advised to seek legal advice prior to any resale of these securities. CGS Resource Fund Ltd. is not a “reporting issuer”, as such term is defined under applicable Canadian securities laws, in any province or territory of Canada in which the securities will be offered. Investors are advised that CGS Resource Fund Ltd. currently does not intend to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of these securities to the public in any province or territory of Canada.*

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## **PART A: GENERAL INFORMATION**

### **INTRODUCTION**

This Offering Memorandum contains selected important information to help you make an informed investment decision and to help you understand your rights as an investor. This Offering Memorandum contains information about CGS Resource Fund Ltd. (formerly AGS Lawrence Resource Fund Ltd.) (the “Fund”) and the risks of investing in mutual funds generally, as well as the names of the firms responsible for the management of the Fund.

This Offering Memorandum offers Class A mutual fund shares, Series A (“Series A Shares”) and Class A mutual fund shares, Series F of the Fund (“Series F Shares”). Redeemable Class D Shares are being provided to investors pursuant to Mutual Fund Rollover Transactions. “Mutual Fund Rollover Transaction” means an exchange transaction pursuant to which a limited partnership will transfer its qualifying assets to the Fund on a tax-deferred basis in exchange for redeemable Class D Shares and then distribute the Shares to the partners on a tax-deferred basis.

The Series A Shares, the Series F Shares and the Class D Shares are referred to, collectively, as the “Shares”.

This document is divided into two parts:

- The first part (“Part A”) contains general information applicable to investment in mutual funds and the Fund.
- The second part (“Part B”) contains specific information about the Fund and the investment strategy used in the Fund.

Additional information about the Fund will be available in the Fund’s annual financial statements and any interim financial statements when provided to shareholders. You can get copies of these documents, including a statement of portfolio transactions, at your request, and at no cost, by contacting CGS Asset Management Ltd. at 1.866.CGS.7789 or by e-mail at info@cgsam.com; or through your investment adviser.

These documents and other information about the Fund *will not* be available on the Internet site of SEDAR (the System for Electronic Document Analysis and Retrieval), as the Fund is not a reporting issuer in any jurisdiction.

In this document, “we”, “us”, “our” and the “Manager” each refer to CGS Asset Management Ltd.

### **WHAT IS A MUTUAL FUND AND WHAT ARE THE RISKS OF INVESTING IN A MUTUAL FUND?**

#### **What is a Mutual Fund?**

#### ***What is the Main Purpose of a Mutual Fund?***

A mutual fund is an investment vehicle created to permit money contributed by people with similar investment objectives to be pooled. People who contribute money become investors of the mutual fund. Mutual fund investors share the mutual fund’s income and expenses as well as the gains the mutual fund makes and the losses it suffers on its investments in proportion to the securities they own. The value of an investment in a mutual fund is realized by redeeming the securities held in a mutual fund.

When you invest in a mutual fund, you are buying an ownership in the mutual fund which is called a “share”. You then become a shareholder of the mutual fund. The shares held by all the investors make up the mutual fund. The more money you invest in a mutual fund, the more shares you receive.

Each mutual fund calculates its net asset value per share which is the price you pay when you purchase shares of that mutual fund and the price you receive when you redeem shares of that mutual fund. Please refer to “Purchases and Redemptions” on page 6 for more information.

You can terminate your investment in a mutual fund by redeeming your shares. Under exceptional circumstances, a mutual fund may suspend redemptions. Please refer to “Redemptions” on page 7 for more information.

Mutual funds own different types of investments, depending upon their investment objectives, including stocks and cash. The value of these investments changes from day to day, reflecting changes in economic conditions, the market, as well as company specific news. As a result, the value of a mutual fund’s shares may go up and down, and the value of your investment in a mutual fund at redemption may be more or less than your original investment amount.

Your investment in the Fund is not guaranteed.

Unlike bank accounts or GICs, mutual fund securities are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer.

Under exceptional circumstances, you may not be able to redeem (sell) your Shares. See “Redemptions” for more information.

The proportions and types of investments held by a mutual fund vary according to the risk and investment objectives of that fund.

### ***What are Dividends?***

A mutual fund corporation typically pays out sufficient dividends to recover the tax it pays on dividends received from taxable Canadian corporations. Some other types of income, such as interest, foreign investment income or income from derivatives are subject to tax in the mutual fund corporation which results in a reduction in the amount of income that is available to be paid out to shareholders. If a mutual fund corporation realizes net capital gains in a year (after deducting applicable capital losses), the mutual fund corporation will generally pay capital gains dividends to its shareholders. Ordinary dividends and capital gains dividends received by shareholders are treated differently for tax purposes. For more information see “Income Tax Considerations for Investors” starting on page 12. A mutual fund corporation may realize capital gains when it sells any of its portfolio investments. A mutual fund corporation may decide to sell a particular investment for a variety of reasons such as for investment reasons or in order to raise money to pay the redemption price to shareholders who redeem their investment in the mutual fund corporation. If the level of redemptions at any particular point in time are higher than the cash on hand for the mutual fund corporation, portfolio investments may have to be sold in connection with such redemptions. As stated above, this may give rise to capital gains to the mutual fund corporation and may cause the corporation to have to pay capital gains dividends to its shareholders. As a result, shareholders may have to pay taxes consequent upon such redemptions.

### **Capital Gains Dividends on Class D Shares**

The Fund may acquire the assets of one or more limited partnerships (each a “Partnership”) established by the Manager, such as the CGS Flow-Through 2010 LP or other future Partnerships pursuant to a Mutual Fund Rollover Transaction. The Partnership assets that the Fund will acquire pursuant to a Mutual Fund Rollover Transaction include “flow-through shares” within the meaning of subsection 66(15) of the Tax Act (“Flow-Through Shares”). The adjusted cost base of the Flow-Through Shares held by each of the Partnerships is expected to be nil, therefore the tax cost to such Fund of these shares will also be nil. The affected Fund will therefore realize capital gains to the full extent of the proceeds received for these shares when they are sold by such Fund, net of reasonable costs of disposition.

The Fund intends to pay capital gains dividends to holders of Series A Shares, Series F Shares and Class D Shares in sufficient amounts so that the Fund receives a refund of capital gains tax it would otherwise have to pay. Holders of Series A Shares and Series F Shares may therefore receive capital gains dividends in excess of what they would have received if such Fund had not acquired Flow-Through Shares from the Partnership on a tax-deferred basis.

To assist with the equitable distribution of such capital gains dividends among holders of Series A Shares, Series F Shares and Class D Shares, the terms of the Class D Shares provide that the Fund may pay one or more capital gains dividends to holders of Class D Shares. Such capital gains dividends are payable to holders of Class D Shares of record on the occurrence of a Mutual Fund Rollover Transaction and may be paid in priority to capital gains dividends payable to holders of Class A Shares.

## **Risks of Investing in a Mutual Fund**

### ***General Investment Risks***

The Net Asset Value, as defined later in this Offering Memorandum, of the Fund will fluctuate with changes in the market value of the Fund's investments. Such changes in market value may occur as the result of various factors, including general economic and market conditions, the performance of companies whose securities are part of the Fund's investment portfolio and changes in interest rates which may affect the value of interest-bearing securities owned by the Fund. Accordingly, the Net Asset Value per Share on any Valuation Date (as defined below) may be more or less than the Net Asset Value per Share, which was applied to the investor's purchase. There is no assurance that the Fund's investment objective of long-term capital appreciation will be achieved.

Below are some of the specific risks that can affect the value of an investment in mutual funds. The description of the Fund, provided later in this Offering Memorandum, identifies the specific risks applicable to the Fund.

### ***Stock Market Risk***

A mutual fund that invests in equity investments (like stocks or shares) or derivatives based on equities will be affected by conditions affecting the stock markets on which those equities are traded and by general economic conditions. A stock's value is also affected by specific company developments.

### ***Capital Gains Risk***

A mutual fund (a "fund") that has acquired, and from time to time in the future may acquire, the assets of certain limited partnerships on a tax-deferred basis will likely have significant accrued gains on those assets at the time they are acquired by the fund, and shareholders in such fund may receive capital gains dividends as a result of those accrued capital gains being realized. A fund may declare and pay capital gains dividends to shareholders of the fund, regardless of whether the related capital gains resulted from a disposition of securities in the fund's portfolio. **Taxable investors should consult with their tax advisors about this risk before purchasing shares of these types of funds.**

### ***Mutual Fund Corporation Status***

There can be no assurance that Canadian income tax laws and the tax treatment of mutual fund corporations will not be changed in a manner which would adversely affect the Fund or the Fund's shareholders. In addition, if the Fund were to fail to qualify as a "mutual fund corporation" for the purposes of the Tax Act, the Fund and its shareholders would be subject to materially adverse tax consequences, including the Fund's disqualification from the capital gains refund provisions of the Tax Act applicable to mutual fund corporations and the treatment of all or a portion of any redemption proceeds as a capital dividend paid by the Fund to redeeming shareholders.

### ***Credit Risk***

Securities that have a low credit rating have high credit risk. Lower-rated debt securities issued by companies often have higher credit risk. Securities issued by well-established companies or by governments of developed countries tend to have lower credit risk. Funds that invest in companies with high credit risk tend to be more volatile in the short term. However, they may offer the potential of higher returns over the long-term.

### ***Derivative Risk***

A derivative is an investment that bases its value on the performance of another type of investment. Some common examples of a derivative are:

- an option contract, which gives its owner the right to buy or sell some asset at a fixed price on or before a given date;
- a futures contract, which is an agreement drawn up for a fixed settlement date and price to deliver or receive an asset at a future date; and
- a forward contract, which is an agreement to exchange currency at some time in the future.

Some common risks associated with derivatives are:

- there is no guarantee that a fund will be able to buy or sell a derivative at the right time to make a profit or limit a loss;
- there is no guarantee that the other party in the contract will meet its obligations; and
- if the other party goes bankrupt, a fund could lose any deposits that were made as part of the contract.

A mutual fund may use derivatives to help offset losses that other investments might suffer because of changes in stock prices, commodity prices, or interest or exchange rates. This is called *hedging*. Some common risks involved in hedging are:

- there is no guarantee that a hedging strategy will always work;
- hedging does not prevent changes in the prices of the securities in a fund's portfolio, or prevent losses if the prices of the securities decrease;
- hedging will not always offset a drop in the value of a security, even if it has usually worked out that way in the past;
- hedging can prevent a fund from making a gain if the value of the currency, stock or bond increases;
- a mutual fund may not be able to make a deal to hedge against an expected change in a market if most other people expect the same change; and
- hedging may be costly.

### ***Sector Risk***

Investing in one specific sector of the stock market, such as the energy and resource sector, entails greater risk (and potential reward) than investing in all sectors of the stock market. If a sector declines or falls out of favour,

the share values of most or all of the companies in that sector will generally fall faster than the market as a whole. The opposite is also true. In addition, investments in specific sectors are generally more volatile than the overall market.

The assets, earnings and share values of companies involved in the energy and resource industries are subject to risks associated with the world prices of various natural resources, forces of nature, economic cycles, commodity prices, exchange rates and political events and as a result the value of shares in this sector may be subject to significant fluctuations.

### ***Foreign Market Risk***

A mutual fund may invest in securities sold outside of North America. The value of foreign securities, and the share price of a mutual fund that holds such securities, may fluctuate more than Canadian investments because:

- companies outside North America are not subject to the regulations, standards, reporting practices, and disclosure requirements that apply in Canada and the United States;
- some foreign markets may not be as regulated as Canadian markets and their laws might make it difficult to protect investor rights;
- political instability, social unrest or diplomatic developments in foreign countries could affect a fund's securities or result in their loss; and
- there is a chance that foreign securities may be highly taxed or that government imposed exchange controls may prevent a fund from taking money out of the country.

Some of a fund's assets may be invested in foreign securities. Consequently, the Canadian dollar equivalent of such fund's net denominated assets and dividends would be adversely affected by reductions in the value of the applicable foreign currencies relative to the Canadian dollar and would be positively affected by increases in the value of the applicable foreign currencies relative to the Canadian dollar.

### ***Interest Rate Risk***

The value of a fund's investment, if any, in fixed-income securities can move up or down as interest rates change. Fixed-income securities, such as bonds, mortgages, treasury bills and commercial paper, pay a rate of interest that is fixed when they are issued. The value of these securities tends to move in the opposite direction to interest rate changes. For example, when interest rates rise, the value of an existing bond will fall if the interest rate on that bond is less than the market rate. The opposite is also true. These changes in turn affect the value of any fund investing in fixed-income securities.

A significant increase in short-term interest rates could create a capital loss in a mutual fund if it holds fixed-income securities. As well, a fund may experience a decline in the value of its holdings due to an issuer's unexpected credit downgrade or other material event. If a fund invests in fixed-income securities, an attempt will be made to mitigate this risk by holding a diversified portfolio of high quality securities, a large percentage of which are either guaranteed directly, or as a credit obligation of a federal government, provincial government, or Crown corporation.

### ***Liquidity Risks***

Investors often describe the speed and ease with which an asset can be sold and changed into cash as its liquidity. Most of the securities owned by mutual funds can usually be sold promptly at a fair price and so can be described as relatively liquid. However, a fund may also invest in securities that are illiquid, which means they cannot be sold quickly or easily. Some securities are illiquid because of legal restrictions, the nature of the investment itself, settlement terms, or for other reasons. Sometimes, there may simply be a shortage of buyers.

The securities of natural resource companies and junior industrial and technology companies are frequently illiquid. If a fund has trouble selling a security, it can lose money or incur extra costs.

#### ***Risk Associated With Securities of Natural Resources Companies***

The business activities of natural resource companies involve significant risk. While rewards from such activities can be substantial if an exploration property is found to hold an oil and gas or mineral deposit which is brought into production, few exploration companies ultimately commence production. Natural resource companies usually have limited production, markets, and financial resources and are, therefore, more vulnerable to the adverse impact of competitive and market changes. Other risk factors to be considered in resource exploration include fluctuations in the oil & gas markets, possible claims of native peoples, protests by environmental groups and regulations relating to environmental protection and the protection of agricultural territory.

#### ***Short Selling Risk***

A short sale by a fund involves borrowing securities from a lender which are then sold in the open market. At a future date, the securities are repurchased by the fund and returned to the lender. While the securities are borrowed, the proceeds from the sale are deposited with the lender and the fund pays interest to the lender. If the value of the securities declines between the time that the fund borrows the securities and the time it repurchases and returns the securities to the lender, the fund makes a profit on the difference (less any interest the fund is required to pay the lender). Short selling involves risk. There is no assurance that securities will decline in value during the period of the short sale and make a profit for the fund. Securities sold short may instead appreciate in value creating a loss for the fund. The fund also may experience difficulties repurchasing and returning the borrowed securities if a liquid market for the securities does not exist. The lender may also recall borrowed securities at any time. The lender from whom the fund has borrowed securities may go bankrupt and the fund may lose the collateral it has deposited with the lender. The fund will adhere to controls and limits that are intended to offset these risks by short selling only liquid securities and by limiting the amount of exposure for short sales. The fund also will deposit collateral only with Canadian lenders that are regulated financial institutions or regulated dealers and only up to certain limits.

#### ***Small Capitalization Risk***

Market capitalization is a measure used to determine the value of a company. It multiplies the current market price of a company's stock by the number of shares outstanding. Small capitalization companies generally are not as liquid as larger capitalization ones, and can be more difficult to buy and sell, with larger bid and ask spreads and more price volatility. Fluctuations in the net asset value per share may occur more rapidly and may be more extreme than would normally be the case for funds investing in larger capitalization issuers.

#### ***Regulatory Risk***

Certain companies are subject to the laws, regulations and policies of regulatory agencies, which may have an impact on revenue. At times, governmental permits and approvals are required prior to commencing projects. Any delay or rejection of these proposed plans would hinder the company's growth projections.

#### ***Concentration Risk***

A relatively high concentration of assets in a single or small number of issuers may reduce the diversification and liquidity of a mutual fund and increase its volatility. As a result of reduced liquidity, the mutual fund's ability to satisfy redemption requests may be reduced.

#### ***Large Redemption Risk***

The Fund may have particular investors who hold a significant proportion of the Fund's outstanding Shares. If one of those investors decides to redeem its investment in the Fund, the Fund may have to sell portfolio

investments so that it can pay the redemption proceeds. These investments may have to be sold quickly and at a lower price than if they were sold over a more extended time period. In addition, the portfolio composition of the Fund could be altered before the time is right to do so. This is could reduce the returns of the Fund.

### *Status of the Fund*

Although the Fund is a “mutual fund” as defined in the securities legislation applicable in certain provinces, it does not operate in accordance with the requirements of NI 81-102 and other policies and regulations of the securities regulatory authorities that are applicable to mutual funds that have offered securities under a prospectus and are reporting issuers.

## **PURCHASES AND REDEMPTIONS**

### **Purchases**

#### *Series A and Series F Shares*

The Series A Shares and Series F Shares of the Fund are being sold only on a private placement basis, and may be offered by the Manager or by other qualified dealers through the facilities of FundSERV. From time to time, the Fund may issue additional shares pursuant to prospectus and registration exemptions under applicable securities laws.

The Shares are issuable in series. At this time, Series A Shares and Series F Shares are being issued. In the future, the Fund may issue shares of other classes and/or other series.

We do not issue certificates for Shares, but we will send you a confirmation statement relating to all purchases and redemptions of Shares within fifteen days of the transaction.

#### *Class D Shares*

Class D Shares will only be issued in connection with Mutual Fund Rollover Transactions. No sales charges are applied to these limited partnerships or former limited partners in connection with these exchanges.

Class D Shares are not being offered for sale under this Offering Memorandum. Class D Shares are distributed firstly to a limited partnership and secondly to limited partners in reliance on the “asset acquisition” and “dissolution or winding up” exemptions from the prospectus delivery requirements under applicable security laws.

### **Redemptions**

Excepted as noted below in respect of Class D Shares, you may redeem Shares of the Fund on a weekly basis without charge; more specifically on the last business day of each week (each, a “**Valuation Date**”). To do so, you must contact your broker or dealer and request that they process the redemption request through FundSERV using each shareholder’s unique account number. If the redemption request is received after the close of business (usually 4:00 p.m. Toronto time) on a Valuation Date or on a day that is not a Valuation Date, the request may not be processed until the following Valuation Date. Whenever practicable, a broker/dealer should effect your redemption request through FundSERV.

Class D Shares may only be redeemed commencing on the second Valuation Date following their date of issuance (the “Initial Class D Redemption Date”). Requests for redemption of Class D Shares made prior to the Initial Class D Redemption Date may be processed on the Initial Class D Redemption Date, provided that the requests are received by the Manager by 4:00 p.m. on such Valuation Date.

A redemption request processed before the close of business on a Valuation Date will be processed at the Net Asset Value per Share calculated at the close of business on the Valuation Date.

If all redemption procedures have been properly completed, the redemptions will be made through FundSERV and settlement will occur within three business days of the Valuation Date on which the redemption takes effect. The proceeds will be wired through FundSERV to your broker's/dealer's account as part of the settlement process.

Please note that if all the necessary procedures are not completed for the redemption request, it will not be processed. If a shareholder decides not to redeem his/her Shares after a redemption request has been made, they may request the broker/dealer to cancel such redemption request, which must be received by the Manager before 4:00 pm (Toronto time) on the Valuation Date in order to be reversed.

Also note that the Manager has the right to redeem your Shares of the Fund if your investment has a value of less than \$500. The Manager will give you 30 days' notice by registered mail that the redemption will take place. If a partial redemption of Shares reduces the value of an investment to less than \$500, the Fund has the right to automatically redeem the balance.

The Fund may temporarily suspend the right to redeem Shares of the Fund and postpone payment of sale proceeds during any period when normal trading is suspended on a stock exchange, options exchange or futures exchange within or outside Canada on which securities are listed or traded, or on which permitted derivatives are traded, which represent more than 50% of the Fund's value or its underlying market exposure are traded, provided those securities or derivatives are not traded on any other exchange that is a reasonably practical alternative for the Fund.

### **Short-Term Trading Fee**

In general, the Shares are intended to be long-term investments. Some investors may seek to trade Shares on a frequent basis in hopes of timing the market, however, this type of trading can hurt the Fund's overall performance, affecting all of the investors in the Fund by forcing the Fund to keep cash or sell investments to meet redemptions. The Manager uses a combination of methods to detect and deter market timing activity, including monitoring trading activity in our client accounts. Through this monitoring, the Manager may decline certain trades, and impose short-term trading fees. The Fund also reserves the right to limit the number of times an investor may trade in and out of the Fund.

The Manager may also impose a short-term trading penalty of up to 2% on the redemption price of Shares redeemed within 180 days of the date upon which the Shares were purchased. The penalty is paid to the Fund and not to the Manager.

### **Automatic Conversion of Class D Shares**

Class D Shares acquired in connection with the Mutual Fund Rollover Transaction outstanding on December 31 in each year (or such earlier date as the Manager may determine), will be automatically switched on a tax-deferred "rollover" basis into Series A Shares on a NAV-equivalent basis. This means that you will receive Series A Shares that have the same aggregate net asset value as the aggregate net asset value of the Class D Shares being switched.

## **NET ASSET VALUE**

### **Calculation of Net Asset Value**

Series A Shares and Series F Shares will have a different Net Asset Value per Share due to different management fees applicable to each Series of Share.

The Net Asset Value of the Fund is the value of the Fund's assets as summarized below less its liabilities and expenses. The Net Asset Value of a class per Share is the quotient obtained by dividing the proportionate value

of the assets of the Fund attributable to the class less the expenses and liabilities of the Fund that are attributable to that class of shares (including expenses solely referable to a class and a proportionate allocation of expenses attributable to all classes) by the number of shares of that class outstanding at that time. The Fund may allocate expenses to a particular class when it is reasonable to do so. Each class will be valued in Canadian dollars.

If we divide the Net Asset Value of the Shares by the total number of Shares outstanding, we arrive at the Net Asset Value per Share. The Net Asset Value per Share is very important because it is the basis on which Shares of the Fund are purchased, reinvested and redeemed. The Net Asset Value per Share varies from week to week. The Fund calculates the Net Asset Value per Share at the close of business on each Valuation Date.

### **Valuation of Fund Assets and Liabilities**

The aggregate value of the assets of the Fund at any time will be determined by the Manager, or by a valuation agent retained by the Manager, as:

- (a) the value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, distributions, dividends or other amounts received (or declared to holders of record of securities owned by the Fund on a date before the Valuation Date as of which the aggregate value of the assets is being determined, and to be received) and interest accrued and not yet received, shall be deemed to be the full amount thereof provided that if the Manager or the valuation agent, as the case may be, has determined that any such deposit, bill, demand note, account receivable, prepaid expense, distribution, dividend or other amount received (or declared to holders of record of securities owned by the Fund on a date before the Valuation Date as of which the aggregate value of the assets is being determined, and to be received) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Manager or the valuation agent, as the case may be, determines to be the fair market value thereof;
- (b) the value of any security, index future or index option which is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Manager or the valuation agent, as the case may be) shall be determined by taking the latest available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless in the opinion of the Manager or the valuation agent, as the case may be, such value does not reflect the value thereof and in which case the latest offer price or bid price shall be used), as at the Valuation Date on which the aggregate value of the assets is being determined, all as reported by any means in common use;
- (c) the value of any security which is traded over-the-counter will be priced at the average of the last bid and asked prices quoted by a major dealer in such securities or as the Manager or the valuation agent, as the case may be, determines to be the fair market value;
- (d) the value of any purchased or written clearing corporation options, options on futures or over-the-counter options, debt-like securities and listed warrants shall be the current market value thereof;
- (e) the value of any security or other asset for which a market quotation is not readily available will be its fair market value on the Valuation Date on which the aggregate value of the assets is being determined as determined by the Manager or the valuation agent, as the case may be, (generally such asset will be valued at cost until there is a clear indication of an increase or decrease in value);
- (f) any market price reported in currency other than Canadian dollars shall be converted into Canadian funds by applying the rate of exchange obtained from the best available sources to

the Manager or the valuation agent, as the case may be, including, but not limited to, the valuation agent or any of its affiliates;

- (g) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Manager or the valuation agent, as the case may be, and investments in private companies and other assets for which no published market exists will be valued at cost or the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is determined to be appropriate by the Manager or the valuation agent, as the case may be; and
- (h) the value of any security or property to which, in the opinion of the Manager or the valuation agent, as the case may be, the above principles cannot be applied or are inappropriate (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair market value thereof determined in good faith in such manner as the Manager or the valuation agent, as the case may be, from time to time adopts.

The liabilities of the Fund include:

- (a) all bills, notes and accounts payable;
- (b) all administrative expenses payable and/or accrued (including management fees);
- (c) all contractual obligations for the payment of money or property, including unpaid dividends;
- (d) all allowances authorized or approved by the directors of the Fund for taxes; and
- (e) all other liabilities of the Fund.

For the purpose of determining the Net Asset Value of the Fund, the Fund has also adopted the valuation requirements for margin paid or deposited which have been established by the Canadian securities regulatory authorities.

The Net Asset Value of the Fund determined in accordance with the principles set out above may differ from Net Asset Value of the Fund determined under Canadian generally accepted accounting principles.

**FEES AND EXPENSES**

The following table lists the fees and expenses that you may have to pay if you invest in the Fund. You may have to pay some of these fees and expenses directly. The Fund may have to pay some of these fees and expenses, which will, therefore, reduce the value of your investment in the Fund. Some of these fees and expenses are subject to GST, including management fees and operating expenses. Taxes, interest and sales charges are not subject to GST.

<b>Fees and Expenses Payable by the Fund</b>	
<b>Management Fees</b>	<p>The management fees of the Fund may vary. The Manager is entitled to a management fee at the end of each week, payable monthly in arrears, from the Fund of 1/12<sup>th</sup> of:</p> <ul style="list-style-type: none"> <li>(i) 2.0% of the average weekly Net Asset Value of the Series A Shares of the Fund;</li> <li>(ii) 1.6% of the average weekly Net Asset Value of the Series F Shares of the Fund;</li> <li>(iii) 2.0% of the average weekly Net Asset Value of the Class D Shares of the Fund.</li> </ul>

<b>Fees and Expenses Payable by the Fund</b>	
	(collectively, the “Management Fees”)
<b>Service Fee</b>	The Manager will, in its discretion, pay to registered dealers whose clients hold Series A Shares or Class D Shares a servicing fee (the “Service Fee”) equal to 0.40% annually of the Net Asset Value attributable to the Series A Shares, plus applicable taxes. The Service Fee will be paid from the Management Fee earned by the Manager. The Manager will pay the Service Fee to brokers based on the number of Series A Shares and/or Class D Shares held by clients of such brokers at the end of the relevant quarter. No Service Fee is payable in respect of the Series F Shares.
<b>Operating Expenses</b>	The Fund pays all of its own operating expenses, including expenses relating to the carrying on of its business, including legal and accounting fees, marketing fees, interest fees, custodial fees, and taxes and administrative costs relating to the issue and redemption of Shares of the Fund and other shareholder administration services, as well as the cost of financial and other reports, and of complying with all applicable laws, regulations and policies and other expenses.
<b>Performance Fees</b>	<p>The performance fees (the “Performance Fees”) for each Series A Share or Series F Share on each Valuation Date is equal to 20% of the amount by which the NAV per Series A Share or Series F Share (plus the aggregate amount of all distributions declared on such Shares during the current fiscal year) exceeds 6% on an annualized basis. The Performance Fee for the Series A Shares or Series F Shares is calculated as the Net Asset Value of the Series at the end of the year, less the Net Asset Value of the Series at the beginning of the year, less purchases to the Series during the year, plus any redemptions of the Series during the year.</p> <p>Performance Fees are calculated and accrued on each Valuation Date and paid annually in arrears at the end of each fiscal year, or at redemption. In calculating the Performance Fees, the NAV per Series A Share or Series F Share is calculated without giving effect to the accrual of any Performance Fees.</p> <p>The return on each investment in Series A Shares or Series F Shares will be tracked from the date of its issue.</p>

<b>Fees and Expenses Payable Directly by You</b>	
<b>Sales Charges</b>	<p>We do not charge a fee or commission when you acquire Shares. A dealer or advisor may charge you a commission of up to 5% at the time of purchase of Shares, which will reduce the amount of money you invest in the Shares. This is a separate agreement between you and your dealer or advisor.</p> <p>No sales charges are payable for Class D Shares to be acquired by a limited partnership on the transfer of its assets to the Fund and subsequently distributed by the limited partnership to the partners thereof (a “Mutual Fund Rollover Transaction”).</p>
<b>Redemption Fees</b>	We do not charge a fee when you redeem your Shares, provided any short-term trading fees do not apply.
<b>Short-Term Trading Fees</b>	The Fund may charge a short-term trading penalty of up to 2% on the redemption price of Shares redeemed within 180 days of the date upon

which the Shares were purchased.
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## INCOME TAX CONSIDERATIONS FOR INVESTORS

This section is a general, but not an exhaustive, summary of how your investment in the Fund is taxed under the *Income Tax Act (Canada)* (the “Tax Act”). It applies to investors who are residents of Canada, deal with the Fund at arm’s length and hold their Shares as capital property. This summary is based on the current provisions of the Tax Act and the regulations thereunder (the “Regulations”), specific proposals to amend the Tax Act and regulations that have been publicly announced by the Minister of Finance (Canada) prior to the date hereof, except as otherwise noted, and the published administrative practices and policies of the CRA. This summary does not otherwise take into account or anticipate any change in law or administrative practice, whether by legislative, regulatory, administrative or judicial action. In addition, it does not take into account provincial, territorial or foreign tax considerations.

**This summary is of a general nature only and is not exhaustive of all possible income tax considerations. Accordingly, prospective investors should consult their own tax advisors about their individual circumstances.**

### Taxation of the Fund

The Manager has advised that the Fund intends to qualify at all relevant times as a “mutual fund corporation,” as defined in the Tax Act. In order for the Fund to qualify as a “mutual fund corporation” for the purposes of the Tax Act: (i) it must be a “Canadian corporation” that is a “public corporation” as those terms are defined in the Tax Act; (ii) its only undertaking must be (A) the investing of its funds in property (other than real property or an interest in real property or an immovable or real right in an immovable), (B) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property or an immovable or real right in an immovable) that is capital property of the Fund, or (C) any combination of the activities described in (A) and (B); (iii) the issued shares of the capital stock of the Fund must include shares (A) having conditions attached thereto that include conditions requiring the Fund to accept, at the demand of the holder thereof and at prices determined and payable in accordance with the conditions, the surrender of the shares, or fractions or parts thereof, that are fully paid, or (B) qualified in accordance with prescribed conditions relating to the redemption of the shares, and the fair market value of such of the issued shares of its capital stock as had conditions attached thereto that included such conditions or as were so qualified, as the case may be, was not less than 95% of the fair market value of all of the issued shares of the capital stock of the Fund (such fair market value being determined without regard to any voting rights attaching to shares of the capital stock of the corporation); and (iv) generally, the Fund may not reasonably be considered to have been established or to be maintained primarily for the benefit of non-residents of Canada.

In order to qualify as a “public corporation” as defined in the Tax Act, (i) the Fund must elect in prescribed manner to be a public corporation; (ii) a class or series of shares of the Fund must be qualified for distribution to the public within the meaning of the Tax Act; (iii) there must be no fewer than 150 persons, other than insiders of the Fund, each of whom holds not less than one block of shares of that class or series and shares of that class or series having an aggregate fair market value of not less than \$500; and (iv) insiders of the Fund must hold not more than 80% of the issued and outstanding shares of that class or series.

This summary assumes that the Fund will qualify at all times as a “mutual fund corporation” for the purposes of the Tax Act, although no assurance can be given in that regard. If the Fund were to not qualify as a “mutual fund corporation”, the income tax considerations described herein would, in some respects, be materially and adversely different. In particular, among other things, if the Fund does not qualify as a “mutual fund corporation” for the purposes of the Tax Act, it will not be able to pay “capital gains dividends” to its shareholders and will not be able to obtain a refund of the tax that it pays on its capital gains, as described below.

The Fund will generally be subject to tax on its income from all sources (including interest, dividends and capital gains) in the same manner as any other public taxable Canadian corporation. However, provided the Fund qualifies at all times as a “mutual fund corporation” for purposes of the Tax Act it will be able to obtain a refund of any tax that it pays on taxable capital gains as and when it pays “capital gains dividends” (see below) to its shareholders. Also, the Fund will generally be liable for the refundable tax of 33 1/3 % under Part IV of the Tax Act on taxable dividends received by it on shares of taxable Canadian corporations which will be refunded as and when the Fund pays Ordinary Dividends (as defined below) to its shareholders. Any tax that the Fund pays on other types of income will not be refundable.

### **Mutual Fund Rollover Transactions**

The Manager has advised that when the assets of a limited partnership are transferred to the Fund in consideration for the Class D Shares, the general partner will file the appropriate election for the purposes of the Tax Act on behalf of all limited partners so that the assets of the partnership transferred to the Fund will be deemed to have been disposed of for an amount equal to the adjusted cost base of such assets or such higher amount as is equal to the liabilities of the Partnership assumed by the Fund. Any excess of such adjusted cost base over the value of the liabilities assumed will be added to the Partnership’s cost of the shares of the Fund that the partnership acquires on the transfer. No amount will be included in the income of the partnership as a result of the transfer except to the extent that the partnership’s liabilities so assumed exceed the adjusted cost base of the assets so transferred, in which case such differences will give rise to a capital gain. On dissolution of the partnership within 60 days after such transfer, pursuant to the appropriate provisions of the Tax Act, each limited partner will be deemed to have acquired the shares of the Fund distributed to such limited partner at a cost equal to the adjusted cost base less the amount of any money distributed to such limited partner and to have disposed of such limited partner’s partnership units for proceeds of disposition equal to the same cost and the amount of money so distributed. The general partners have advised that at the time the partnerships are wound up, the only property of the respective partnership will be Class D Shares.

### **Tax Status of Shareholders**

#### *Dividends*

A mutual fund corporation may elect that a dividend payable by it be a “capital gains dividend” to the extent that the dividend does not exceed the balance of the corporation’s capital gains dividend account at that time. In general, a mutual fund corporation’s capital gains dividend account represents the amount by which capital gains realized by it while it was a mutual fund corporation exceed the aggregate of (i) capital losses realized by it while it was a mutual fund corporation, (ii) certain capital gains dividends previously paid by it and (iii) amounts in respect of which the corporation is entitled to a refund of tax previously paid on capital gains. A mutual fund corporation may also pay dividends in respect of which it makes no such election (“Ordinary Dividends”). Dividends reinvested in additional shares of a mutual fund corporation will be considered to be received by the shareholder for tax purposes.

Ordinary Dividends received by an individual on Shares will be included in computing the individual’s income for the purposes of the Tax Act and will be subject to the gross-up and dividend tax credit rules (including the enhanced dividend tax credit rules in respect of certain “eligible dividends” paid by taxable Canadian corporations) normally applicable to taxable dividends paid by taxable Canadian corporations.

Ordinary Dividends received by a corporation on Shares will be included in computing the corporation’s income for purposes of the Tax Act. A corporation will normally be entitled to deduct such dividends in computing its taxable income. Special rules may apply to “specified financial institutions” (as defined in the Tax Act).

A shareholder that is a “private corporation” (as defined in the Tax Act) or any other corporation resident in Canada and controlled, either by reason of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than a trust) may be liable to pay the refundable tax of 33 1/3 % under Part IV of the Tax Act on Ordinary Dividends received on Shares to the extent that such dividends are deductible in computing the corporation’s taxable income.

Capital gains dividends received on Shares in a taxation year by a shareholder will be treated as capital gains of the shareholder for the year and will be subject to the general rules relating to the taxation of capital gains (see “Tax Treatment of Capital Gains and Capital Losses” below).

### ***Disposition of Shares***

An actual or deemed disposition of Shares by a shareholder, including a redemption of such Shares, will result in a capital gain (or capital loss) to the extent that the proceeds of disposition of the Shares, net of the reasonable disposition costs, exceed (or are less than) the adjusted cost base of such Shares to the shareholder immediately before the disposition.

### ***Conversion of Class D Shares***

The conversion of the Class D Shares into Series A Shares of the Fund will generally be deemed not to be a disposition of the Class D Shares, provided that the Series A Shares received in exchange for such Class D Shares are capital property to the holder; accordingly, the holder of the Class D Shares will generally not realize a capital gain (or a capital loss) on the conversion. The cost of the Series A Shares acquired on the conversion will generally be equal to the adjusted cost base of the Class D Shares, as applicable.

### **Tax Treatment of Capital Gains and Capital Losses**

Upon the disposition of Shares, a shareholder will generally be required to include in income one-half of the amount of any capital gain (a “taxable capital gain”) and will be required to deduct one-half of the amount of any capital loss (an “allowable capital loss”) against taxable capital gains realized by the Limited Partner in the year of disposition. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding years or carried forward and deducted in any following taxation year against taxable gains realized in such years to the extent and under the circumstances described in the Tax Act.

In the case of a holder that is a corporation, the amount of any capital loss otherwise determined resulting from the disposition of Shares may be reduced by the amount of Ordinary Dividends previously received or deemed to have been received thereon in the circumstances described in the Tax Act. Similar rules apply to a partnership or trust of which a corporation is a member or beneficiary.

The Tax Act imposes a refundable tax of 6 2/3% on “aggregate investment income” (which is defined to include an amount in respect of taxable capital gains) earned by a Canadian-controlled private corporation (as defined in the Tax Act). Individuals (other than certain trusts) realizing net capital gains or receiving dividends may be subject to an alternative minimum tax under the Tax Act.

### **Eligibility for Registered Plans**

Shares of the Fund are qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds, tax-free savings accounts, registered disability savings plans, and registered education savings plans under the Tax Act.

### **WHAT ARE YOUR LEGAL RIGHTS?**

Securities legislation in some provinces gives you the right to withdraw from an agreement to buy mutual funds within 2 business days of receiving an offering memorandum, or to cancel your purchase within 48 hours of receiving confirmation of your order.

Securities legislation in some provinces and territories also allows you to cancel an agreement to buy mutual fund units and get your money back, or to make a claim for damages, if an offering memorandum or financial statements misrepresent any facts about the Fund. These rights must usually be exercised within certain time limits.

For more information, refer to the securities legislation of your province or territory or consult your lawyer.

Securities legislation in certain of the Canadian provinces provides purchasers of securities pursuant to an offering memorandum (such as this Offering Memorandum) with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering memorandum and any amendment to it contains a misrepresentation.

## **Ontario**

Section 130.1 of the *Securities Act* (Ontario) (the “Ontario Act”) provides that every purchaser of securities pursuant to an offering memorandum (such as this Offering Memorandum) shall have a statutory right of action for damages or rescission against the issuer in the event that the offering memorandum contains a misrepresentation (as such term is defined in the Ontario Act). A purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer and any selling security holder provided that:

- (a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer and the selling security holders, if any;
- (b) the issuer and the selling security holders, if any, will not be liable if they prove that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) the issuer and the selling security holders, if any, will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered.

Section 138 of the *Securities Act* (Ontario) provides that no action shall be commenced to enforce these rights more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of an action for damages, the earlier of:
  - (i) 180 days after the date that the purchaser first had knowledge of the facts giving rise to the cause of action; or
  - (ii) three years after the date of the transaction that gave rise to the cause of action.

This Offering Memorandum is being delivered in reliance on the exemption from the prospectus requirements contained under section 2.3 of NI 45-106 (the “**accredited investor exemption**”). The rights referred to in section 130.1 of the *Securities Act* (Ontario) do not apply in respect of an offering memorandum (such as this Offering Memorandum) delivered to a prospective purchaser in connection with a distribution made in reliance on the accredited investor exemption if the prospective purchaser is:

- (a) a Canadian financial institution or a Schedule III bank (each as defined in NI 45-106);
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or

- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

## **Saskatchewan**

Section 138 of *The Securities Act, 1988* (Saskatchewan), as amended (the “Saskatchewan Act”) provides that where an offering memorandum (such as this Canadian offering memorandum) or any amendment to it is sent or delivered to a purchaser and it contains a misrepresentation (as defined in the Saskatchewan Act), a purchaser who purchases a security covered by the offering memorandum or any amendment to it is deemed to have relied upon that misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for rescission against the issuer or a selling security holder on whose behalf the distribution is made or has a right of action for damages against:

- (a) the issuer or a selling security holder on whose behalf the distribution is made;
- (b) every promoter and director of the issuer or the selling security holder, as the case may be, at the time the offering memorandum or any amendment to it was sent or delivered;
- (c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;
- (d) every person who or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed the offering memorandum or the amendment to the offering memorandum; and
- (e) every person who or company that sells securities on behalf of the issuer or selling security holder under the offering memorandum or amendment to the offering memorandum.

Such rights of rescission and damages are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its right of rescission against the issuer or selling security holder, it shall have no right of action for damages against that party;
- (b) in an action for damages, a defendant will not be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the securities resulting from the misrepresentation relied on;
- (c) no person or company, other than the issuer or a selling security holder, will be liable for any part of the offering memorandum or any amendment to it not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation;
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered; and
- (e) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation.

In addition, no person or company, other than the issuer or selling security holder, will be liable if the person or company proves that:

- (a) the offering memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company gave reasonable general notice that it was so sent or delivered; or
- (b) with respect to any part of the offering memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the part of the offering memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Not all defences upon which we or others may rely are described herein. Please refer to the full text of the Saskatchewan Act for a complete listing.

Similar rights of action for damages and rescission are provided in section 138.1 of the Saskatchewan Act in respect of a misrepresentation in advertising and sales literature disseminated in connection with an offering of securities.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser is deemed to have relied on the misrepresentation, if it was a misrepresentation at the time of purchase, and has a right of action for damages against the individual who made the verbal statement.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser for the securities if the securities are sold in contravention of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Saskatchewan Financial Services Commission.

Section 141(2) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by Section 80.1 of the Saskatchewan Act.

The rights of action for damages or rescission under the Saskatchewan Act are in addition to and do not derogate from any other right which a purchaser may have at law.

Section 147 of the Saskatchewan Act provides that no action shall be commenced to enforce any of the foregoing rights more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of any other action, other than an action for rescission, the earlier of:
  - (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; or
  - (ii) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan Act also provides a purchaser who has received an amended offering memorandum delivered in accordance with subsection 80.1(3) of the Saskatchewan Act has a right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the

securities, indicating the purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

### **New Brunswick**

Section 150 of the *Securities Act* (New Brunswick) (the "New Brunswick Act") provides that where an offering memorandum (such as this Offering Memorandum) contains a misrepresentation, as such term is defined in the New Brunswick Act, a purchaser who purchases securities shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and:

- (a) the purchaser has a right of action for damages against the issuer and any selling security holder(s) on whose behalf the distribution is made, or
- (b) where the purchaser purchased the securities from a person referred to in paragraph (a), the purchaser may elect to exercise a right of rescission against the person, in which case the purchaser shall have no right of action for damages against the person.

This statutory right of action is available to New Brunswick purchasers whether or not such purchaser relied on the misrepresentation. However, there are various defences available to the issuer and the selling security holder(s). In particular, no person will be liable for a misrepresentation if such person proves that the purchaser purchased the securities with knowledge of the misrepresentation when the purchaser purchased the securities. Moreover, in an action for damages, the amount recoverable will not exceed the price at which the securities were offered under the offering memorandum and any defendant will not be liable for all or any part of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the misrepresentation.

If the purchaser intends to rely on the rights described in (a) or (b) above, such purchaser must do so within strict time limitations. The purchaser must commence an action to cancel the agreement within 180 days after the date of the transaction that gave rise to the cause of action. The purchaser must commence its action for damages within the earlier of:

- (a) one year after the purchaser first had knowledge of the facts giving rise to the cause of action; or
- (b) six years after the date of the transaction that gave rise to the cause of action.

### **Nova Scotia**

The right of action for damages or rescission described herein is conferred by section 138 of the *Securities Act* (Nova Scotia) (the "Nova Scotia Act"). Section 138 of the Securities Act (Nova Scotia) provides, in relevant part, that in the event that an offering memorandum (such as this Offering Memorandum), together with any amendment thereto, or any advertising or sales literature (as defined in the Nova Scotia Act) contains a misrepresentation (as such term is defined in the Nova Scotia Act), the purchaser will be deemed to have relied upon such misrepresentation if it was a misrepresentation at the time of purchase and has, subject to certain limitations and defences, a statutory right of action for damages against the issuer and, subject to certain additional defences, every director of the issuer at the date of the offering memorandum and every person who signed the offering memorandum or, alternatively, while still the owner of the securities purchased by the purchaser, may elect instead to exercise a statutory right of rescission against the issuer, in which case the purchaser shall have no right of action for damages against the issuer, directors of the issuer or persons who have signed the offering memorandum, provided that, among other limitations:

- (a) no action shall be commenced to enforce the right of action for rescission or damages by a purchaser resident in Nova Scotia later than 120 days after the date on which the initial payment was made for the securities;

- (b) no person will be liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) in the case of an action for damages, no person will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and
- (d) in no case will the amount recoverable in any action exceed the price at which the securities were offered to the purchaser.

In addition, a person or company, other than the issuer, will not be liable if that person or company proves that:

- (a) the offering memorandum or amendment to the offering memorandum was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent;
- (b) after delivery of the offering memorandum or amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the offering memorandum or amendment to the offering memorandum the person or company withdrew the person's or company's consent to the offering memorandum or amendment to the offering memorandum, and gave reasonable general notice of the withdrawal and the reason for it; or
- (c) with respect to any part of the offering memorandum or amendment to the offering memorandum purporting (i) to be made on the authority of an expert, or (ii) to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that (A) there had been a misrepresentation, or (B) the relevant part of the offering memorandum or amendment to offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert.

Furthermore, no person or company, other than the issuer, will be liable with respect to any part of the offering memorandum or amendment to the offering memorandum not purporting (a) to be made on the authority of an expert or (b) to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation.

If a misrepresentation is contained in a record incorporated by reference into, or deemed incorporated by reference into, the offering memorandum or amendment to the offering memorandum, the Misrepresentation is deemed to be contained in the offering memorandum or an amendment to the offering memorandum.

**Alberta, British Columbia, Manitoba, Newfoundland and Labrador, PEI, Yukon Territory, Nunavut, Northwest Territories and Québec**

Notwithstanding that the *Securities Act* (British Columbia), the *Securities Act* (Alberta) and the *Securities Act* (Québec) do not provide, or require the Fund to provide, to purchasers resident in these jurisdictions any rights of action in circumstances where this Offering Memorandum or an amendment hereto contains a Misrepresentation, the Fund hereby grants to such purchasers contractual rights of action that are equivalent to the statutory rights of action set forth above with respect to purchasers resident in Ontario.

In Manitoba, the *Securities Act* (Manitoba), in Newfoundland and Labrador the *Securities Act* (Newfoundland and Labrador), in Prince Edward Island the *Securities Act* (PEI), in Yukon, the *Securities Act* (Yukon), in Nunavut, the *Securities Act* (Nunavut) and in the Northwest Territories, the *Securities Act* (Northwest Territories) provides a statutory right of action for damages or rescission to purchasers resident in Manitoba,

Newfoundland, PEI, Yukon, Nunavut and Northwest Territories respectively, in circumstances where this Offering Memorandum or an amendment hereto contains a misrepresentation, which rights are similar, but not identical, to the rights available to Ontario purchasers.

The foregoing summary is subject to the express provisions of the *Securities Act* (Ontario), the securities act of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador, respectively, and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions. Such provisions may contain limitations and statutory defences on which the Fund may rely. The enforceability of these rights may be limited as described herein under section entitled “Enforcement of Legal Rights”.

The rights of action for damages or rescission discussed above are in addition to, and without derogation from, any other right or remedy which purchasers may have at law.

### **General**

The right of action described is in addition to and without derogation from any other right the purchaser may have in law. The right of action must be exercised within prescribed time limits. For more information, refer to the securities legislation of your jurisdiction or consult your lawyer.

**PART B: SPECIFIC INFORMATION ABOUT CGS RESOURCE FUND LTD.**

**ORGANIZATION AND MANAGEMENT OF THE FUND**

The table below provides additional information about the Fund's organization:

<p><b>Manager</b> CGS Asset Management Ltd. Suite 2108, 335 – 8<sup>th</sup> Avenue S.W. Calgary, Alberta T2P 1C9 Tel: 403.571.0690 Toll-Free: 1.866.CGS.7789 Fax: 403.263.5554 Website: www.cgsam.com E-mail: info@cgsam.com</p>	<p>The Manager is responsible for the overall business of the Fund. The Manager provides or arranges for the Fund's daily business administration, which includes providing accounting and administration services for the Fund. The Manager is responsible for managing the investment portfolio of the Fund, including providing or arranging for the provision of investment analysis and making decisions relating to the investments of assets of the Fund. Decisions on the purchase or sale of portfolio securities and decisions as to the execution of all portfolio transactions, including selection of market, dealer or broker and the negotiation, where applicable, of commissions are also made by the Manager.</p>
<p><b>Custodian</b> RBC Dexia Investor Services Trust Toronto, Ontario</p>	<p>The Custodian holds the Fund's securities and other investment portfolio assets, including cash on deposit on behalf of the Fund and is responsible for the safekeeping of all such assets of the Fund.</p>
<p><b>Valuation Services Agent</b> RBC Dexia Investor Services Trust Toronto, Ontario</p>	<p>The Valuation Services Agent performs weekly valuations for the Fund and issues annual tax reporting information for the Fund.</p>
<p><b>Transfer Agent</b> SGGG Fund Services Inc. Toronto, Ontario</p>	<p>The Transfer Agent keeps track of the owners of the Fund's securities by maintaining the registers of security holders of the Fund and by processing purchase orders, transfers, distributions and, if applicable, redemption orders.</p>
<p><b>Auditors</b> Ernst &amp; Young LLP Calgary, AB</p>	<p>The Auditor is responsible for reviewing the financial statements of the Fund on an annual basis and provides an opinion as to whether such financial statements fairly present the financial position, results of operations, changes in net assets and net realized gain (loss) from investment transactions of the Fund in all material respects in accordance with Canadian generally accepted accounting principles.</p>

### Management of the Fund

The name, municipality of residence, office, and principal occupation during the past five years of each of the directors and executive officers of the Fund are set out in the table below:

<u>Name and Municipality of Residence</u>	<u>Position with the Fund<sup>1</sup></u>	<u>Principal Occupation During the Last 5 Years</u>
John A. Brussa ..... Calgary, Alberta	Director	A partner of Burnet, Duckworth and Palmer LLP, Barristers and Solicitors, since 1987.
Clarence Chow ..... Calgary, Alberta	President and Director	President of CGS Asset Management Ltd. since 2008 and President of AGS Capital Management Ltd. since 2004.
Sandy Lutyck ..... Calgary, Alberta	Chief Compliance Officer and Director	Chief Financial Officer and Chief Compliance Officer of CGS Asset Management Ltd. since 2008; Treasurer and Corporate Secretary of AGS Capital Management Ltd. since 2004.
Miles Nagamatsu Toronto, Ontario	Chief Financial Officer	President of Marlborough Management Ltd. since 1993.
Gordon Stollery ..... Calgary, Alberta	Chairman and Director	Independent businessman since February 1, 2008; President and Chief Executive Officer of Highpine Oil & Gas Limited since May 15, 2007 and prior thereto, Chairman and Chief Executive Officer of Highpine.

### The Manager

The name, municipality of residence, office, and principal occupation during the past five years of each of the directors and executive officers of the Manager are set out in the table below:

<u>Name and Municipality of Residence</u>	<u>Position with Manager</u>	<u>Principal Occupation During the Last 5 Years</u>
Clarence Chow ..... Calgary, Alberta	President and Director	President of CGS Asset Management Ltd. since 2008 and AGS Capital Management Ltd. since 2004.
Sandy Lutyck ..... Calgary, Alberta	Chief Financial Officer and Chief Compliance Officer and Director	Chief Financial Officer and Chief Compliance Officer of CGS Asset Management Ltd. since 2008 and Treasurer and Corporate Secretary of AGS Capital Management Ltd. since 2004.

<sup>1</sup> The term of each director's appointment expires at the next annual general meeting of the Fund, unless re-elected or re-appointed at such meeting.

CGS Asset Management Ltd. is based in Calgary, Alberta and focused on the energy and energy related sectors of the market. Investment experience continues across all areas of the energy markets from start up, micro-cap private companies to large-cap international producers. The management team has significant operational experience in both public and private oil and gas companies, and provides investors with a unique combination of capital markets and technical operational expertise.

The Manager manages the day-to-day operations under the terms of a management agreement (“Management Agreement”) between the Manager and the Fund. The services provided to the Fund by the Manager include:

- managing the investment portfolio of the Fund, processing portfolio trades and providing weekly calculations of the value of the Fund’s portfolio;
- transfer agent/registrar personnel to process purchase, exchange and, if applicable, redemption orders;
- customer service personnel to respond to dealer and investor enquiries concerning investor accounts; and
- all other support personnel to ensure that the Fund’s operations are conducted in an efficient manner.

For its services as manager of the Fund, the Manager will receive an aggregate annual management fee equal to 2.0% of the average weekly Net Asset Value of the Series A Shares of the Fund and 1.6% of the average weekly Net Asset Value of the Series F Shares of the Fund (the “**Management Fee**”) plus GST payable monthly in arrears. The Manager will, in its discretion, pay to registered dealers whose clients hold Series A Shares a servicing fee (the “**Service Fee**”) equal to 0.40% annually of the Net Asset Value attributable to the Series A Shares, plus applicable taxes, from its Management Fee. The Manager will pay the Service Fee to brokers based on the number of Series A Shares held by clients of such brokers at the end of the relevant quarter. No Service Fee is payable in respect of the Series F Shares. The Manager is also entitled to Performance Fees as set out in “Fees and Expenses - Fees and Expenses Payable directly by the Fund”.

The Management Agreement will continue unless and until terminated by any party upon giving 60 days’ prior notice or such shorter notice as the Fund and the Manager may agree. The Management Agreement may also be terminated by the Fund or the Manager upon giving notice in writing to the other party if any party ceases to carry on business, becomes bankrupt or insolvent, resolves to wind-up or liquidate or to have an examiner appointed or if a receiver of any of its assets is appointed or if a party commits a material breach of the Management Agreement which is not remedied within 30 days. The Manager may only assign the Management Agreement without shareholder approval if the assignment is to a company affiliated with the Manager within the meaning of the Securities Act (Ontario). Any assignment of the Management Agreement to a non-affiliated company will require the prior approval of at least a majority of the votes cast by the shareholders of the Fund.

## FUND DETAILS

<b>Type of Fund:</b>	Oil & Gas Equity Fund
<b>Start-up Date:</b>	July 28, 2006
<b>Nature of Securities Offered:</b>	Series A Series F and Class D Shares mutual fund shares of a mutual fund corporation
<b>RRSP/RRIF Eligible:</b>	Yes

## **Name, Formation and History**

The Fund was incorporated under the *Canada Business Corporation Act* pursuant to articles of incorporation on July 29, 2006. The articles of the Fund were amended on May 22, 2007 to amend and restate the rights, privileges, restrictions and conditions attaching to the common shares. The Manager replaced Lawrence Asset Management Inc. as manager of the Fund on December 11, 2009. On February 12, 2010 the articles of the Fund were amended to change the name of the Fund from AGS Lawrence Resource Fund Ltd. to CGS Resource Fund Ltd., to change the province in which its registered office is located from Ontario to Alberta, and to add two new series of Class A Shares, the Series A Shares and the Series F Shares. The articles of the Fund were amended on June 28, 2011 to create the Class D Shares.

## **WHAT DOES THE FUND INVEST IN?**

### **Investment Objectives**

The Fund's fundamental investment objective is to achieve long-term capital growth by investing primarily in equity securities of Canadian resource issuers engaged in oil and gas exploration and development. Assets of the Fund may also be invested in debt obligations or held in cash to the extent that economic, market or other conditions make it appropriate to do so. Any change to the fundamental investment objectives of the Fund must be approved by a majority of the votes cast at a meeting of the shareholders of the Fund called to consider the change.

### **Investment Strategies**

To meet its objectives the Fund:

- Will select investments by identifying securities that have the potential to increase in value in relation to their current price.
- Will focus on companies in the oil and gas industry, including exploration and production companies, development companies, and in select situations, energy service companies.
- Will assess the financial parameters of a company, its market share and role in its industry, as well as the economic state of its industry. Measures, such as earnings, price/earnings multiples and market share growth, may be used to evaluate investments.
- May conduct management interviews with companies to determine the corporate strategy and business plan, as well as to evaluate management capabilities.

### ***Investment Policies and Restrictions***

The investment activities of the Fund are to be conducted in accordance with, among other things, the following investment restrictions:

- (a) **Sole Undertaking.** The Fund will not engage in any undertaking other than the investment of the Fund's assets in accordance with the Fund's investment objective and investment strategies.
- (b) **Limit on Illiquid Investments.** The Fund will not purchase an illiquid asset (as such term is defined in NI 81-102) if, immediately after the purchase, more than 20% of the total assets of the Fund would consist of illiquid assets. If more than 25% of the total assets of the Fund are illiquid assets, the Fund shall, as quickly as is commercially reasonable having regard to market conditions and the nature of the assets, take all necessary steps to reduce the percentage of its total assets made up of illiquid assets to 25% or less. Notwithstanding the foregoing, any illiquid assets acquired by the Fund from a limited partnership in connection

with the acquisition of all the eligible assets of such partnership may comprise up to 50% of the total assets of the Fund, in the event that the total assets of the Fund are reduced as a result of redemptions of a class of preferred shares; provided that the Fund shall, as quickly as is commercially reasonable having regard to market conditions and the nature of the assets, take all necessary steps to reduce the percentage of its total assets made up of such illiquid assets to 25% or less.

- (c) **Concentration.** The Fund may invest up to 20% of its total assets in any one issuer; provided that the Fund may, at any time, have invested up to 25% of its total assets in each of any two issuers.
- (d) **Control.** The Fund will not purchase a security of an issuer if, immediately after the purchase, the Fund would hold securities representing more than 20% of the votes attaching to the outstanding voting securities of that issuer, or of the outstanding equity securities of that issuer.
- (e) **Borrowing.** The Fund may not borrow or use other forms of leverage in excess of 25% of the Fund's total assets. If the total leverage exceeds 30% of the total assets of the Fund, indebtedness will be reduced in a commercially reasonable manner having regard to market conditions such that the amount borrowed or otherwise subject to leverage does not constitute more than 25% of the total assets of the Fund.
- (f) **Purchasing and Selling Securities.** The Fund will not purchase or sell securities other than through normal market facilities unless the purchase or sale price, as applicable, thereof approximates the prevailing market price or is negotiated or established with Resource Issuers who deal on an arm's length basis from the Fund, the Manager and their respective affiliates.
- (g) **Material Interest.** The Fund will not, with the exception of securities of the Fund's own issue, purchase securities from, sell securities to, or otherwise contract for the acquisition or disposition of securities with the Manager or any of its affiliates, with any officer, director or shareholder of the Manager, with any person, trust, firm or corporation managed by the Manager or any of its affiliates or with any firm or corporation in which any officer, director or shareholder of the Manager may have a material interest (which, for these purposes, includes beneficial ownership of more than ten percent of the voting securities of such entity) unless, with respect to any purchase or sale of securities, any such transaction is effected through normal market facilities, and the purchase price approximates the prevailing market price.
- (h) **Mutual Fund Status.** The Fund will manage its investments and affairs to ensure that it will qualify as a mutual fund corporation for the purposes of the Tax Act at all relevant times.
- (i) **No Commodities.** The Fund will not purchase or sell commodities or commodities contracts (other than through the purchase of securities of issuers that invest in commodities or interests therein).
- (j) **No Guarantees.** The Fund will not guarantee the securities or obligations of any person.
- (k) **No Real Estate.** The Fund will not purchase or sell real estate or interests therein.
- (l) **Lending.** The Fund may purchase such debt obligations and to engage in such securities lending transactions as may be permitted in accordance with NI 81-102.
- (m) **Derivatives.** The Fund may purchase such derivatives as may be permitted in accordance with NI 81-102.

- (n) **Restriction on Underwriting.** The Fund will not act as an underwriter except to the extent that the Fund may be deemed to be an underwriter in connection with the sale of securities in its investment portfolio.
- (o) **Short Sales.** The Fund may make short sales of securities or maintain a short position in any security as may be permitted in accordance with NI 81-102.
- (p) **No Mortgages.** The Fund will not purchase mortgages.

Except for the fundamental investment objective, the investment objectives, policies, restrictions and strategies are not fundamental and may be changed by the Fund without shareholder approval.

### **WHAT ARE THE RISKS OF INVESTING IN THE FUND?**

This section shows the specific risks associated with the Fund's investment strategy. The risks may be associated with either investments made directly by the Fund, or investments held in an underlying fund in which the Fund makes an investment. For an explanation of these risks, see "Risks of Investing in a Mutual Fund" starting on page 3 of this document.

Most of the Fund's assets will be invested in common shares and other equity securities. The Fund will therefore be subject to stock market risk. Since the Fund may also invest in foreign securities, it may be exposed to the risk of investments in foreign securities and foreign currency risk. The Fund may invest in relatively illiquid securities that may expose the Fund to liquidity risk. The Fund may also be exposed to sector risk due to its investments being concentrated in a limited number of sectors. The Fund may further be exposed to the risks of investing in derivatives.

### **WHO SHOULD INVEST IN THE FUND?**

As a general statement, this Fund is suitable for investors who are seeking above-average growth potential through investment in the natural resource sector, have a moderate to high risk tolerance and are planning to hold the Fund for the medium to long term. However, you should consider your personal investment profile, consult your financial advisor and read the more detailed explanation of risk under the heading "Risks of Investing in a Mutual Fund" earlier in this document before making a decision whether this Fund is suitable for you.

### **DISTRIBUTION POLICY**

The Fund distributes its earnings to its shareholders by paying dividends. There are two types of earnings that can be distributed: ordinary dividends and capital gains dividends. Dividends are not paid at regular times. The board of directors of the Fund (the "Board") determines when and if a dividend is declared. To the extent dividends are declared by the Board, such dividends will generally be allocated among the Shares on a fair and reasonable basis as determined by the Manager and approved by the Board. In addition:

- The record date for a dividend is the Valuation Date prior to the payment date.
- All dividends by the Fund to its shareholders will be automatically reinvested in additional Shares of the Fund. You may, by written request, elect to receive cash payment by electronic transfer to your bank account.
- Each shareholder will receive, on a semi-annual basis, a statement indicating the number of Shares of the Fund owned after giving effect to such reinvestments of dividends during the previous six months.
- Shares acquired through the reinvestment of dividends are not subject to any sales charges.

- As a Fund may dispose of a large portion of its portfolio each year, the amount of dividends may be material.

For more information about dividends, see “Income Tax Considerations for Investors” starting on page 12.

### **Past Performance**

Prior to December 11, 2009, CGS Asset Management Ltd. (or its predecessor) acted as a consultant to both the Fund and the previous manager providing technical expertise, advice and due diligence services in the resource sector and specifically in relation to the identification and review of investment opportunities to be considered by the previous manager.

*As at May 31, 2011*

<b>Symbol</b>	<b>1 MTH</b>	<b>3 MTH</b>	<b>6 MTH</b>	<b>YTD</b>	<b>1 YEAR</b>	<b>2 YEAR</b>
CGS301	0.9%	0.1%	15.2%	8.3%	16.0%	39.3%

### **OTHER INFORMATION ABOUT THE FUND**

#### *Derivatives*

The Fund may use derivatives as part of its investment strategies. A derivative is generally a contract between two parties to buy or sell an asset at a later time. The value of the contract is based on or derived from an underlying asset such as a stock, a market index, a currency, a commodity or a basket of securities. It is not a direct investment in the underlying asset itself. Derivatives may be traded on a stock exchange or in the over-the-counter market. Examples of different types of derivatives are:

*Options* - An option is the right, but not the obligation, to buy or sell a security, currency, commodity or market index at an agreed upon price by a certain date. The buyer of the option makes a payment called a premium to the seller for this right.

*Forward Contracts* - A forward contract is an agreement to buy or sell an asset, such as a security or currency, at an agreed upon price at a future date or to pay the difference in value between the contract date and the settlement date. Forward contracts are generally not traded on organized exchanges and are not subject to standardized terms and conditions.

*Futures Contracts* - Like a forward contract, a futures contract is an agreement between two parties to buy or sell an asset at any agreed upon price at a future date or to pay the difference in value between the contract date and the settlement date. Futures contracts are normally traded on a registered futures exchange. The exchange usually specifies certain standardized features of the contract.

*Swaps* - A swap is an agreement between two parties to exchange or “swap” payments. The payments are based on an agreed underlying amount such as a bond. However, each party’s payments are calculated according to a different formula. For example, one party’s payments may be based on a floating interest rate while the other party’s payment may be based on a fixed interest rate. Swaps are not traded on organized exchanges and are not subject to standardized terms and conditions.

There are several risks associated with a Fund’s use of derivatives which are described earlier in this document under “Risks of Investing in a Mutual Fund” on page 3. The Fund will comply with all applicable requirements of securities and tax legislation with respect to the use of derivatives. Please refer to the Fund’s profile for a description of the different types of derivatives that the Fund may use.

### ***Securities Lending, Repurchase and Reverse Repurchase Transactions (“securities lending transactions”)***

Subject to compliance with all applicable laws and regulatory requirements, the Fund may enter into securities lending transactions to the extent permitted from time to time pursuant to applicable securities legislation. A securities lending transaction is where a Fund lends certain qualified securities to a borrower in exchange for a negotiated fee without triggering a disposition of the security for tax purposes. A repurchase transaction is where a Fund sells a security at one price and agrees to buy it back from the same party at a specified price on a specified date. A reverse repurchase transaction is where a Fund buys securities for cash at one price and agrees to sell them back to the same party at a specified price on a specified date. Securities lending agreements involve certain risks which are described earlier in this document under “Risks of Investing in a Mutual Fund” on page 3.

### ***Short Selling***

The Fund may engage in short selling which involves borrowing securities from a lender which are then sold in the open market (or “sold short”). At a later date, the same number of securities are repurchased by the Fund and returned to the lender. In the interim, the proceeds from the first sale are deposited with the lender and the Fund pays interest to the lender. If the value of the securities declines between the time that the Fund borrows the securities and the time it repurchases and returns the securities, the Fund makes a profit for the difference (less any interest the Fund is required to pay to the lender). In this way, the Fund has more opportunities for gains when markets are generally volatile or declining.

The Fund will engage in short selling only within certain controls and limitations. Securities will be sold short only for cash and the Fund will receive the cash proceeds within normal trading settlement periods for the market in which the short sale is made. All short sales will be effected only through market facilities through which those securities are normally bought and sold and the Fund will short sell a security only if: (i) the security is listed and posted for trading on a stock exchange and either the issuer of the security has a market capitalization of not less than \$300 million of the security sold short at the time the short sale is made or the portfolio adviser has prearranged to borrow securities for the purposes of such short sale; or (ii) the security is a bond, debenture or other evidence of indebtedness of or guaranteed by the Government of Canada or any province or territory of Canada or the Government of the United States. As well, at the time securities of a particular issuer are sold short by the Fund, the aggregate market value of all securities of that issuer sold short will not exceed 10% of the total assets of the Fund. The aggregate market value of all securities sold short by the Fund will not exceed 50% of its total net assets on a weekly marked-to-market basis. The Fund may deposit assets with lenders in accordance with industry practice in relation to its obligations arising under short sale transactions. No proceeds from short sales will be used by the Fund to purchase long positions other than cash cover. Where a short sale is effected in Canada, every dealer that holds Fund assets as security in connection with the short sale must be a registered dealer and a member of a self-regulatory organization that is a participating member of the Canadian Investor Protection Fund. Where a short sale is effected outside Canada, every dealer that holds Fund assets as security in connection with the short sale must be a member of a stock exchange and have a net worth in excess of the equivalent of \$50 million determined from its most recent audited financial statements. The aggregate assets deposited by the Fund with any single dealer as security in connection with short sales will not exceed 10% of the Fund’s total assets at the time of deposit.

Short selling will be used by the Fund only as a complement to the Fund’s current primary discipline of buying securities with the expectation that they will appreciate in market value.

### ***Mutual Fund Rollover Transaction***

The Fund may acquire the assets of one or more limited partnerships (each a “Partnership”) established by the Manager, such as the CGS Flow-Through 2010 LP or other future Partnerships.

Prior to termination of a Partnership, the property of a Partnership will be transferred to the Fund in exchange for redeemable Class D Shares of the Fund (the “Class D Shares”). Within 60 days thereafter, the Partnership will be liquidated and the Class D Shares will be distributed to the partners of the liquidated Partnership. The transfer of property by a Partnership to the Fund and the subsequent liquidation of the Partnership and

distribution of the Class D Shares to the partners of the Partnership is referred to as a Mutual Fund Rollover Transaction. Class D Shares are identical to the Series A Shares but for the fact that all Class D Shares acquired in connection with the Mutual Fund Rollover Transaction outstanding on December 31 in each year (or such earlier date as the Manager may determine) will be automatically converted into Series A Shares on a NAV-equivalent tax-deferred basis.

Elections under applicable income tax legislation will be made so that the transfer of property by a Partnership to the Fund occurs on a tax-deferred basis. This will result in the Fund acquiring property which has a cost, for tax purposes, that is lower than its market value; “Flow-Through Shares” so acquired will have nominal cost. The cost to the Fund of assets acquired from a Partnership will be averaged with the adjusted cost base of identical assets owned by the Fund at the time assets are acquired from the Partnership. A subsequent disposition of assets acquired from a Partnership, or identical assets, including as a result of investors switching from the Fund to another fund, may result in the recognition of larger capital gains than if a Mutual Fund Rollover Transaction had not occurred.

Shareholders of the Fund may receive capital gains dividends in excess of what would have been received by them had there been no Mutual Fund Rollover Transactions and may be required to pay tax on such dividends.

If necessary in connection with a Mutual Fund Rollover Transaction, the Fund will apply to the relevant securities or regulatory authorities to be exempted, for a period of 180 days following the date of the transfer of assets of the relevant Partnership to the Fund, from the investment restrictions which would otherwise prohibit the Fund from investing in securities of any issuer if, after giving effect to such an investment, the Fund would own more than 10% of the outstanding voting or equity securities of such issuer, other than securities issued or guaranteed as to principal and interest by the Government of Canada or any province thereof or investing more than 10% of the net asset value of the Fund in securities of any one issuer, other than securities issued or guaranteed as to principal and interest by the Government of Canada or any province thereof. If necessary, the Fund may also seek any other regulatory exemptions to enable it to acquire assets from a Partnership that would otherwise result in the Fund contravening any investment restrictions under applicable securities laws.

## **CONFLICTS OF INTEREST**

### **The Manager**

The services of the Manager are not exclusive to the Fund. The Manager and its affiliates are not in any way limited or affected in their ability to carry on other business ventures for their own account and for the account of others, and currently engage and may in the future engage in the same business activities or pursue the same investment opportunities as the Fund. Certain directors, officers or employees of the Manager and its affiliates (or the associates of such individuals) may be or become directors or officers of companies in which the Fund may invest, subject to compliance with applicable law.

The Manager or its affiliates may provide corporate finance or financial advisory services to any other funds, partnerships or entities, including companies in which the Fund invests. The Manager may receive fees from such funds, partnerships, entities or companies in connection with such services.

The Fund may, subject to compliance with applicable securities law and pursuant to written consent that will be obtained from investors in their subscription agreements with the Fund, invest in entities related to the Manager or purchase a security of an issuer in which a responsible person or an associate of a responsible person is a partner, officer or director. A “responsible person” means, for a registered adviser, (a) the adviser, (b) a partner, director or officer of the adviser, and (c) each of the following who has access to, or participates in formulating, an investment decision made on behalf of a client of the adviser or advice to be given to a client of the adviser: (i) an employee or agent of the adviser; (ii) an affiliate of the adviser; and (iii) a partner, director, officer, employee or agent of an affiliate of the adviser.

## **Investment Opportunities**

The Manager and its affiliates are not in any way limited or affected in their ability to carry on other business ventures for their own account and for the account of others and currently engage and may in the future engage in the same business activities or pursue the same investment opportunities as the Fund. Conflicts of interest may arise from time to time in allocating investment opportunities, timing investment decisions and exercising rights in respect of and otherwise dealing with securities of issuers in which the Fund invests. There is no obligation on the Manager or its officers, directors and affiliates to present any particular investment opportunity to the Fund and such persons may recommend to others such investment opportunity. The Manager may from time to time disclose to such affiliates information regarding potential investment opportunities for the Fund. Where conflicts of interest arise with respect to investment opportunities, the Manager will address such conflicts of interest with regard to the investment objectives of each of the parties involved and will act in accordance with the duty of care owed to each of them.

## **CERTAIN RELATIONSHIPS**

In addition to acting as the Manager of the Fund, CGS Asset Management Ltd. may also act as a dealer in connection with the offering of Shares contemplated in this Memorandum. See “Plan of Distribution.” As a result of CGS Asset Management Ltd.’s role as Manager and its ownership of the Fund, the Fund may be considered to be a connected issuer and a related issuer of CGS Asset Management Ltd. for purposes of applicable securities laws. In its capacity as Manager of the Fund, CGS Asset Management Ltd. is entitled under the Management Agreement to a management fee and to be reimbursed for all fees and expenses to which it is entitled.

CGS Asset Management Ltd. will not, in its capacity as a dealer in the Shares, receive a separate fee or payment for acting as dealer of such Shares. However, as a dealer, CGS Asset Management Ltd. may, from time to time, be involved in raising money for companies independent of the Fund and its activities and may earn fees on such transactions.

The Fund may, subject to compliance with applicable securities law, also invest in entities related to the Manager or purchase a security of an issuer in which a responsible person or an associate of a responsible person is a partner, officer or director. A “responsible person” means, for a registered adviser, (a) the adviser, (b) a partner, director or officer of the adviser, and (c) each of the following who has access to, or participates in formulating, an investment decision made on behalf of a client of the adviser or advice to be given to a client of the adviser: (i) an employee or agent of the adviser; (ii) an affiliate of the adviser; and (iii) a partner, director, officer, employee or agent of an affiliate of the adviser.

## **LANGUAGE OF DOCUMENTS**

Upon receipt of this document, each Canadian investor hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu’il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d’achat ou tout avis) soient rédigés en anglais seulement.*

**CGS RESOURCE FUND LTD.**  
*(formerly AGS Lawrence Resource Fund Ltd.)*

Additional information about the Fund is available in the Fund's financial statements.

Shareholders can obtain a copy of these documents, at their request, and at no cost, by calling 1.866.CGS.7789 or by e-mail at [info@cgsam.com](mailto:info@cgsam.com); or from your investment adviser.



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