

Barry J. Myers

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Mr. Simon Bieber
Adair Goldblatt Bieber LLP
95 Wellington Street West,
Suite 1830
Toronto, Ontario, M5J 2N7

Dear Mr. Bieber

Anthony Whitehouse v. BDO Canada LLP (“BDO”)

1. Introduction

I have been asked to consider the auditing issues with respect to the above matter and to provide a written report setting out my views on those issues, as well as the basis for such opinions. The auditing issues relate to BDO’s audits of the Crystal Wealth Funds (the “Funds”), as defined in the Second Report of Grant Thornton Limited in its Capacity as Court-Appointed Receiver of the Crystal Wealth Group.

2. Background

I am a retired audit partner and the former Canadian Financial Services Industry Practice Leader and Canadian Investment Management Industry Practice Leader of PricewaterhouseCoopers (“PwC”).

I joined Coopers & Lybrand, a predecessor firm to PwC, in 1978, and was admitted to the partnership in 1982. I retired from PwC in 2008. While at Coopers & Lybrand. (later PwC), I held the following management positions:

- Audit and Assurance Practice Leader (1990-1998)
- Member of the Partnership Board (1990-1998)

- Canadian Financial Services Industry Practice Leader and Canadian Investment Management Industry Practice Leader (1998-2005)
- Member of the Canadian Leadership Group (1998-2005)

Over the course of 30 years at Coopers & Lybrand and PwC, I developed the firm's audit and full-service practice for the investment and wealth management industry from its infancy, building the largest accounting, auditing and consulting practice serving the investment management industry in Canada. PwC continues to be the dominant player in this sector today, with approximately 55% of the audit of financial statements market share relating to public mutual funds. In addition to my work as an auditor, I worked extensively with the investment and wealth management industry in the areas of regulatory compliance, risk management, mergers & acquisitions and restructuring.

During my career, I audited financial statements and reviewed Simplified Prospectuses, Annual Information Forms, Fund Facts and Management Reports of Fund Performance for tens of thousands of mutual funds. In the course of these audits, I reviewed thousands of agreements between mutual funds and their managers and/or advisors. This work entailed detailed and thorough knowledge of applicable securities laws, the ability to accurately re-perform a given fund's performance calculations, and the review and audit of the existence, title, completeness and valuation of every type of securities instrument.

I have also audited many financial statements of Ontario Securities Commission registrants, such as Portfolio Managers, Investment Fund Managers and Dealers.

Outside of my professional and client work at Coopers & Lybrand/PwC, I have made a number of significant contributions to the investment and wealth management industry over the course of my career. In the early 1980s, representing Coopers & Lybrand, I became the first affiliate member of the Investment Funds Institute of Canada ("IFIC"), and since that time have served on many committees and sub-committees of IFIC, such as the Regulatory Compliance Committee, Accounting Sub-Advisory Committee, Correcting NAV Portfolio Errors Committee and the Personal Rates of Return Committee. In 1994, I was consulted by Ontario Securities Commissioner Glorianne Stromberg during the drafting of her seminal report, "Regulatory Strategies for

the Mid-90s, Recommendations for Regulating Investments Funds in Canada" (the "Stromberg Report"), which triggered the creation of the Mutual Fund Dealers Association of Canada and a host of regulatory changes such as the implementation of National Instruments 81-101, 81-102, 81-105, 81-106 and 81-107. Following the release of the Stromberg Report in January 1995, I was invited by the Canadian Securities Administrators to sit on the Working Committee on Governance, Organization and Management of Investment Funds and Conflicts of Interest, which was responsible for overseeing and managing the response to the various recommendations contained in the Stromberg Report. The resulting Canadian Securities Administrators report provided advice to the regulators on how the regulatory framework governing investment funds should be changed to address the principles underlying the Stromberg Report and the specific recommendations made therein.

In 1997, I served as the chair of the Canadian Institute of Chartered Accountants ("CICA") Task Force on Financial Reporting by Investment Funds and authored the report, "Financial Reporting by Investment Funds". This report became widely used by the industry and served as the model for investment funds financial reporting. I also chaired the CICA Task Force responsible for updating this report and have authored an updated edition of the report released in July 2009.

Subsequent to my retirement from PwC, I have been appointed to the Board of Directors of Fidelity Investments Canada ULC, Guardian Capital Group Limited, Open Access Limited, Portland Investment Counsel Inc. and State Street Trust Company Canada, all of which operate in the investment/wealth management industry. I am also a member of the Independent Review Committee of the Barometer Funds.

Following my retirement from PwC, I joined Borden Ladner Gervais LLP's Securities and Capital Markets Group and Investment Management Group as a Senior Advisor, where I provided among other things, regulatory compliance, restructuring, merger and acquisition, investment fund and registrant accounting and strategic planning services.

As a result of this experience. I have developed expertise in all aspects of the mutual fund industry, including reporting requirements, valuation methods, methods for measuring performance, methods for calculating management fees, and best practices in the investment fund industry. Due to my background and extensive experience, I believe I am qualified to provide the conclusions set out below. A copy of my summarized Curriculum Vitae is attached as Schedule A.

3. Materials Considered

In the course of preparing this report, I have considered the following documents:

- Ontario Securities Commission (“OSC”) Application Record – April 25, 2017 - Volumes 1 to 8;
- Statement of Claim – July 20, 2017;
- Motion Record Volume 1 of 3 – November 24, 2017 (which includes the First Report Submitted to the Court by Grant Thornton Limited in its Capacity as Receiver - June 22, 2017 and the Second Report Submitted to the Court by Grant Thornton Limited in its Capacity as Receiver - November 24, 2017);
- Motion Record Volume 2 of 3 – November 24, 2017; and
- Motion Record Volume 3 of 3 – November 24, 2017.

4. Issues to be Addressed

I have been requested to consider based on the very limited information that I have whether BDO conducted its audits of the financial statements of the Funds in accordance with the Generally Accepted Audit Standards (“GAAS”) that existed in Canada at the applicable times.

I emphasize that I have had no access to BDO, the BDO engagement partner or the BDO staff on the relevant Funds audit engagements. I also have not had access to BDO’s audit files with respect to the audits. Thus any conclusion I reach will be of a preliminary nature and the conclusions I express in this report are therefore based on my initial observations and are preliminary in nature and are not my final opinion. In order to provide a final and definitive opinion, I would be required to perform a thorough review of all of BDO’s relevant audit working paper files and possibly interview relevant BDO partners or staff.

Accordingly, I may need to update and/or revise my observations as more information becomes available in order to render my final opinion.

The current Canadian Audit Standard 200 sets out the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with Canadian Audit Standards ("CASs"). Specifically, it sets out the overall objectives of the independent audit and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the CASs, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the CASs.

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework – which, in the Funds' case, is either Generally Accepted Accounting Principles in Canada ("GAAP") or International Financial Reporting Standards ("IFRS"). In the case of most general-purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with CASs and relevant ethical requirements enables the auditor to form that opinion.

The financial statements subject to audit are those of the entity, prepared by management of the entity with oversight from those charged with governance. CASs do not impose responsibilities on management or those charged with governance and do not override laws and regulations that govern their responsibilities. However, an audit in accordance with CASs is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged certain responsibilities that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

As the basis for the auditor's opinion, CASs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free

from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

Over my career as I have mentioned above I have audited thousands of fund financial statements. In my experience the following are necessary for a properly performed audit of financial statements.

- i. Proper planning of the audit;
- ii. Identification of the role service providers may have with respect to the Funds' recordkeeping;
- iii. The exercise of appropriate and sufficient professional skepticism;
- iv. Appropriate consideration of the risk of misstatement through fraud or error; and
- v. The obtaining of appropriate and sufficient audit evidence to support the valuation, existence, title and completeness of every item on the Statement of Net Assets or Statement of Financial Position.

In the First Report to the Court submitted by Grant Thornton Limited in its Capacity as Court-Appointed Receiver of the Crystal Wealth Group, I noted the following:

- At paragraph 5, "The OSC stated that it believed that Smith and the Company may have:
 - a) participated in a course of conduct relating to securities that they knew or reasonably ought to have known perpetrated a fraud, contrary to s. 126.1 (1)(b) of the Act;
 - b) failed to act fairly, honestly and in good faith with clients, contrary to s. 2.1 of Rule 31-505 - Conditions of Registration; and
 - c) failed to comply with the standard of care expected of investment fund managers under s. 116 of the Act."

In the Second Report to the Court submitted by Grant Thornton Limited in its Capacity as Court-Appointed Receiver of the Crystal Wealth Group, at paragraph 32, it is stated that "The Receiver draws the following conclusions:

- a) The lack of segregation of duties in performing the day to day operations and governance thereof (e.g. Smith was the controlling mind, sole director, and Chief Compliance Officer, among others) resulted in the Company not having an effective organizational structure to ensure proper oversight and governance of the Crystal Wealth Funds and possibly, compliance with Ontario securities laws, including, without limitation, the Act."

In addition, the Statement of Claim states the following:

- at paragraph 13 "...Grant Thornton's investigation, subsequent to its appointment as receiver, indicates that Crystal Wealth's record-keeping is seriously deficient such that it is not even possible to identify Crystal Wealth's assets, liabilities or creditors from existing documentation.";
- at paragraph 39 "...Grant Thornton has been unable to obtain enough information to fully understand and support the value of the loans underlying the Media Fund. The documents simply do not exist.";
- at paragraph 43 "Grant Thornton has also concluded in its review of Crystal Wealth's records that the documentation supporting the purported value of the funds is seriously deficient, particularly with respect to the Off-Book Assets."; and
- at paragraph 44 "Indeed, Grant Thornton has been unable to identify all of the creditors of Crystal Wealth or the Funds from existing documentation."

5. Conclusions

Based on my review of the documents listed in 3 above and the facts listed in 4 above pertaining to BDO and Grant Thornton, BDO, as auditor of the Funds' financial statements, did not obtain appropriate and sufficient audit evidence, in accordance with GAAS, to obtain reasonable assurance about whether the financial statements of the Funds were free from material misstatement. That is, the Funds' financial statements that BDO purportedly audited were not in accordance with GAAP or IFRS.

The fact that Crystal Wealth's record-keeping and internal controls were poor would have rendered the financial statements of the Funds very difficult to audit. Without a proper audit plan, the exercise of healthy skepticism and the appropriate consideration of the risk of misstatement through fraud or error, BDO would not have been able to identify whether the net asset values ("NAVs") of the Funds were significantly over-valued or not. NAVs are an exceptionally important, if not the singularly most important, line item in an investment fund's Statement of Net Assets or Statement of Financial Position. In fact, the NAV per security of an investment fund is the price at which securities in the fund trade.

If BDO did not obtain appropriate and sufficient evidence that the assets of the Funds actually existed, in the name of the relevant Fund, and were fairly valued and their liabilities complete, it is not possible that they did in fact conduct a GAAS audit of the Funds' financial statements.

BDO could not have conducted the required review of the underlying documentation associated with the assets of the Funds as according to Grant Thornton, the documentation supporting the purported value of the Funds was seriously deficient in Crystal Wealth's records.

Grant Thornton also submitted that BDO did not appropriately audit the value (or lack thereof) of the Off-Book Assets.

Crystal Wealth Management System Limited ("Crystal Wealth"), the Investment Fund Manager of the Funds, had engaged two outsource providers. The first was AIS Solutions Inc. ("AIS"), which provided fund accounting services for the Funds. These services included the computation of the Funds' NAV, providing the Funds' NAV to various third-party data providers and the Funds' registrar, and also preparing the first draft of the Fund's semi-annual and annual financial statements. The second was International Financial Data Services ("IFDS"), which provided the Funds' transfer agent services.

As a securities commission registrant, Crystal Wealth cannot outsource compliance and its own responsibilities. AIS and IFDS processed information

that originally was given to them by Crystal Wealth and if such information was incorrect, either due to fraud or innocent error, the culpability for the error rests with Crystal Wealth. These facts should have been considered by BDO when planning the audits. From the documentation that I have reviewed I have not seen evidence the BDO did so and if they did not, it would constitute a blatant auditing error.

Furthermore, the Second Report to the Court submitted by Grant Thornton Limited in its Capacity as Court-Appointed Receiver of the Crystal Wealth Group describes a number of related party transactions, which together with the allegations of the OSC leads me to believe that BDO did not exercise healthy skepticism when it conducted audits of the financial statements of the Funds.

Finally, based on the above formation I have concluded that BDO could not have obtained reasonable assurance about whether the financial statements of each of the Funds as a whole were free from material misstatement, whether due to fraud or error. Accordingly, BDO could not have obtained sufficient appropriate audit evidence to reduce audit risk and therefore BDO expressed inappropriate opinions as the financial statements were probably materially misstated and did not present fairly, in all material respects, in accordance with GAAP or IFRS, whichever was applicable.

A handwritten signature in blue ink, appearing to read "BJM Myers". The signature is stylized with a large, sweeping "B" and "M", and a horizontal line under the name.

Barry J. Myers, FCPA, FCA

Schedule A

Barry J Myers FCPA, FCA Summarized Curriculum Vitae

Background

Barry Myers brings nearly three decades of professional senior management experience at PricewaterhouseCoopers to his role as Senior Advisor in Borden Ladner Gervais LLP, Securities & Capital Markets Group, where he worked in the Toronto office.

Barry is a Chartered Professional Accountant in both Canada and South Africa and was elected as a Fellow of the Chartered Professional Accountants of Ontario in 2000.

Areas of Expertise

As leader of PricewaterhouseCoopers' Financial Services as well as its Canadian Investment/Wealth Management practices, Barry developed extensive and specialized knowledge of Canadian and U.S. securities legislation. His areas of expertise include mutual funds, alternative products, labour-sponsored venture capital funds and the U.S. Securities and Exchange Commission's mutual fund accounting and regulatory requirements.

Barry is also extremely familiar with the workings of the Ontario Securities Commission where he served on its special Investment Funds Steering Group on Fund Management, Governance and Conflicts of Interest.

As a Chartered Professional Accountant, Barry clearly has considerable expertise in financial reporting. He served as practice leader of PricewaterhouseCoopers' Audit and Assurance Group. He also gained additional knowledge as chair of two Canadian Institute of Chartered Accountants task forces on Financial Reporting by Investment Funds.

Professional and Community Activities

- Member of various boards and committees of the Investment Funds Institute of Canada (1980 to 2015)
- Chairman of the Canadian Institute of Chartered Accountants Task Force on Financial Reporting by Investment Funds (1997 and 2007).

- Member of the Ontario Securities Commission Working Committee on Fund Management, Governance and Conflicts of Interest. (1995).
- Member of the Board of Directors of:
 - ✚ Fidelity Investments Canada ULC also chair of the Audit Committee;
 - ✚ Guardian Capital Group Limited also chair of the Audit Committee;
 - ✚ Open Access Limited;
 - ✚ Portland Investment Counsel Inc.; and
 - ✚ State Street Trust Company Canada also chair of the Audit Committee.
- Member of the Independent Review Committee of the Barometer Funds.
- Former member of the Board of Directors of the Invest in Kids Foundation.
- Former member of the Board of Directors of Lyndhurst Hospital.