Gravitas Investments

2018 – a tough year for industrial, battery, precious metals

2H 2018 UPDATE

- Slowdown in China's consumption of commodities and rising inventories subdued demand for industrial metals.
- Global trade-wars and tariffs fuelled decline in investor appetite for battery metals.
- Higher interest rates, strength of the US dollar and a positive outlook on the US economy (and equities) translated to limited interest in gold.
- Investors not fully convinced of a full blown global economic slowdown. Only when equities came under pressure in 4Q did gold respond as a 'safe-haven' asset class.

2019 – Gold, uranium and the view from here

- We anticipate gold and uranium price appreciation will fuel portfolio returns in 2019.
- Future demand for battery metals predicted to be high due to strategic long-term plans for electric vehicles.
- Gold: Lack of alpha in other areas of the market should support gold in a US$1,250 – 1,400/oz range. Uranium: market fundamentals significantly improved.
- Supply side constraints will likely insulate industrial metals from revisiting the lows of 2015/2016.

Market Review & Outlook

2018 frustrated commodity investors as prices tumbled on rising trade tensions, threats of tariffs and weak Chinese industrial data – all of which curbed demand for industrial and battery metals.

Inventories were higher in the early part of 2018, and this kept prices subdued. Gold failed to act as a safe haven asset, even as geopolitical tensions increased. Both these situations appear to be reversing in 2019, together with softer monetary policies.

In addition to higher interest rates and strength in the US$, investment behaviour was driven by investor confidence in the equity market throughout 2018. Investors did not 'flee to safety' as one might expect in a global political environment as fraught with tension and rumours of conflict as 2018 was. Plenty of market alpha was to be had from cannabis and crypto, fuelling optimism that geopolitical problems were temporary and would resolve.

However, broader macro issues show signs of settling in and being felt throughout the broader economy. As 2018 ended and 2019 begins, we are seeing a return to gold as a de-risking asset class, particularly as the market presents fewer areas where retail investors can obtain alpha. The effect of moving to even a minor exposure to gold can be impactful, as this translates to a significant influx of new money into a relatively small sector.

OUTLOOK: Gold, uranium (and silver) are favoured in the short-term while longer-term, manufacturers have taken significant strategic interests in battery metals miners. For example, companies such as Panasonic, LG Chem and Tesla have invested in miners to secure raw materials. Chinese state-backed companies continue to secure raw materials for its growing electric vehicles industry – and China's strategic long term plan is to become a global battery and EV manufacturer.

For gold, we expect the market will trade in a US$1,250-1,400/oz range. Uranium market fundamentals significantly improved over a year ago. Annual demand has returned to pre-Fukushima accident levels and will need to respond as new reactors go on-line. 8 new reactors started commercial operation in 2018 and 50 more are under construction in China and the Middle East.

Gold, silver and uranium price appreciation plus continued industry consolidation will be positive for our portfolios.

Special Situations Strategy

- ✓ Focused on delivering alpha from today's most interesting investment themes
- ✓ Actively managed
- ✓ RRSP eligible

Now eligible for Tax Deferred Plans

(details page 2)

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Gravitas Investments

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Doing things differently

Gravitas Family of Flow-Through Limited Partnerships

We do things differently than other flow-through managers, with the objective of achieving better absolute return for our clients. We wrapped-up the subscription period for our latest *'super flow through'* fund, and based on strong sales it is clear our message is gaining momentum in the market. Here are a few of the ways we are different:

First: our portfolio enjoys the advantage of being able to focus on deals not available to many of our competitors, and

Second: is our approach to risk management. We are diversified across different commodities, lessening exposure to volatility from any one specific resource. We also let cash build by taking profits when the opportunity presents itself, preserving as much of your capital as we can from potential market driven price decline.

Flow-throughs are one of the last remaining advanced tax management strategies available to individual and corporate investors. If you can accept market volatility (upside and downside) from investing in commodities and want to offset tax exposure, consider investing with one of Canada's most distinctive flow-through franchises – Gravitas.

Gravitas Special Situations Strategy

The strategy seeks alpha through an investment approach that is distinctly different to what everyone else is doing (especially banks). It is an actively managed portfolio of micro, small and mid cap stocks that align to themes seeing market momentum. The portfolio provides an optimal mix of concentration and diversification on themes such as on-line gaming, battery metals, block-chain, cannabis … and aligned with Gravitas' expertise, the strategy will likely always have exposure to resources.

Buy/Sell decision-making is nimble. Unlike the 'mega funds' or banks – the fund does not buy from an 'approved list'. Investments are sought at the 'pre-institutional interest' stage, during the period of greatest growth. The strategy utilizes warrants, debentures, public IPOs and private placements – undiscovered names and stories.

See next page for NAVs, holdings and exposures by theme

RRSP Season 2018/2019

Diversified Themes, Diversified Alpha

Now accessible to Tax Deferred Plans

Gravitas' Special Situations strategy is attracting a lot of attention from investors wanting a high alpha strategy in their portfolio. We've just made it easier to participate in this strategy through the introduction of a class eligible for tax deferred plans.

Please contact us for more information.

Active Funds – Exposures by Theme – December 31, 2018

Gravitas Select FT 2017
NAV $7.64 (B-Class)

Exposure	%
Gold	57.8%
Precious/Industrial Metals	18.5%
Battery/Energy Metals	13.1%
Industrial Metals	9.2%
Cash and Warrants	1.4%

Gravitas Select FT 2016
NAV $5.10 (B-Class)

Exposure	%
Mixed Precious Metals	60.3%
Industrial Metals	16.3%
Cash and Warrants	12.4%
Energy/Battery Metals	11.0%

Gravitas Short-Duration FT 2018
NAV $7.13 (B-Class)

Exposure	%
Battery/Energy Metals	46.5%
Gold	30.3%
Silver	16.4%
Diamond	6.8%

Gravitas Select FT 2018
NAV $10.00 (B-Class)

Exposure	%
Gold	68.0%
Battery/Energy Metals	10.9%
Precious/Industrial Metals	7.7%
Cash and Warrants	5.7%
Gold/Diamonds	3.9%
Technology Metals	3.8%

Gravitas Special Situations Fund
NAV $14.18 (A-Class)

Top 5 Holdings	Investment Theme
Deer Horn Capital	Financial / Mining
Aurcana Corp.	Mixed Precious Metals
First Vanadium Corp.	Battery Metals
Mexican Gold Corp	Gold
CellCube Energy Storage	Battery Metals

Gravitas Special Situations Trust
NAV $11.60 (A-Class)

Top 5 Holdings	Investment Theme
Int'l Cannabrands	Cannabis
Jiulian Resources	Battery Metals
Aurcana Corp.	Technology Metals
Deer Horn Capital	Gold
E3 Metals Corp	Battery Metals

Featured Holdings

Deer Horn Capital *(Special Situations)* Deer Horn Capital is committed to exploring for, and providing, strategic and critical metals vital to a low-carbon economy and for the advancement of technology. Presently focused on the extremely rare metal tellurium, Deer Horn is advancing a 51-square kilometer land package that hosts North America's only known mineral property with a certified NI 43-101 tellurium resource. The Company's leadership has deep experience in finance, mineral property development, geology, mineralogy, solar power, engineering, research and First Nations engagement and economic development. Our focus on Deer Horn leverages projections for film tellurium solar panels, a market which is indicated to grow in value to US$30 billion by 2024.

Braveheart *(Select 2018, 2017 & 2016)* Braveheart built on its management expertise in 2018 with the addition of two experienced mining veterans to its Board. In October 2018, Braveheart announced the proposed strategic acquisition of the Bull River mine, a past-producing copper, gold and silver mine near Cranbrook, British Columbia. The acquisition was successfully completed in January 2019 and company is moving forward with permitting to bring the mine into production. The company also completed a drilling program at its high-grade Alpine gold mine near Nelson, British Columbia and has begun permitting to bring this past-producing mine into production in parallel with the newly acquired Bull River mine. Majority ownership continues to be maintained by its management team – a team well known to us.

Returns with impact of tax credits – December 31, 2018

Issuer	NAV	Gain (Loss) per Unit	RETURNS including METC and CEE tax benefits*
Gravitas Short-Duration FT LP 2018	$7.1	-$2.87	33.8%
Gravitas Short-Duration FT LP 2017	$4.6	-$5.43	8.2%
Gravitas Select FT LP 2018	$10.0	$0.00	62.5%
Gravitas Select FT LP 2017	$5.5	-$4.51	17.4%
Gravitas Select FT LP 2016	$5.1	-$4.90	13.5%
Gravitas Select FT LP III (2015) - wound up	$11.9	$1.94	81.9%
Gravitas Select FT LP II (2014) - wound up	$6.2	-$3.84	24.1%
Gravitas Select FT LP I (2013) - wound up	$9.5	-$0.47	57.8%

** Based on Ontario's highest marginal tax rate of 53.53% and includes Canadian Exploration Expense deductions and Mineral Exploration Tax Credits. Does not include capital gains tax payable in year of disposition or alternative minimum tax, if applicable, which may serve to reduce total return. The issue price for each flow through is $10. Performance presented is a return on investment calculation and is net of all commissions, management fees and expenses, all of which may be associated with investment funds. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Client's accountant or financial advisor is best placed to advise on the tax implication specific to the client. Please read the Offering Memorandum before investing.*

	Performance - December 31, 2018				
	3-Months	6-Months	1 Year	2 Year	Since Inception
Special Situations Fund	0.4%	-3.2%	-31.0%	-8.1%	41.8%
TSX-V (Fund)	-21.4%	-24.7%	-34.5%	-26.9%	-17.4%
Special Situations Trust	-28.5%	-20.8%	16.0%	-	16.0%
TSX-V (Trust)	-21.4%	-24.7%	-34.5%	-	-28.9%

The inception date of Special Situations Fund (class A) is April 2016, Special Situations Trust is January 2017. TSX-V data presented uses close values. The Fund is representative of the strategy employed by the Trust – new holdings are allocated proportionally to each fund, however sales of residual holdings in the Fund that are not held in the Trust will result in differences in results. Differences in results are expected to moderate over time as size and holdings equalize.

Contact Details

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