Financial Statements
(Expressed in Canadian dollars)

MALACHITE AGGRESSIVE PREFERRED FUND

And Independent Auditors' Report thereon

Year ended December 31, 2019

KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Malachite Aggressive Preferred Fund

Opinion

We have audited the financial statements of Malachite Aggressive Preferred Fund (the Entity), which comprise:

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

March 30, 2020

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Financial Position
(Expressed in Canadian dollars)

December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Investments, at fair value (Schedule)	$ 6,577,586	$ 6,916,348
Cash	22,598	75,342
Due from brokers	365,701	–
Accrued income receivable	75,651	7,750
	7,041,536	6,999,440
Liabilities		
Accrued liabilities (note 4)	50,960	41,837
Due to brokers	400,040	42,279
	451,000	84,116
Net assets attributable to holders of redeemable units	$ 6,590,536	$ 6,915,324
Redeemable units issued and outstanding (note 8)	814,653.2928	796,010.5092
Net asset value attributable to holders of redeemable units per unit	$ 8.0900	$ 8.6875

Subsequent event (note 13)

See accompanying notes to financial statements.

On behalf of the Trustee:

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Hymas Investment Management Inc.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Comprehensive Income
(Expressed in Canadian dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Investment income:		
Dividends	$ 350,873	$ 339,775
Net realized gains (losses) on investments	(1,119,667)	311,217
Net change in unrealized appreciation (depreciation) on investments	660,822	(1,402,856)
	(107,972)	(751,864)
Expenses:		
Legal and audit	15,600	15,600
Transaction costs	12,678	8,532
Interest	2,328	3,171
Other	–	308
	30,606	27,611
Amounts that would otherwise have been payable by the fund that were paid or absorbed by the Investment Manager (note 5(c))	(301)	–
	30,305	27,611
Decrease in net assets attributable to holders of redeemable units	$ (138,277)	$ (779,475)
Decrease in net assets attributable to holders of redeemable units from operations per unit (based on weighted average number of units outstanding during the year)	$ (0.1760)	$ (0.9600)

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units
(Expressed in Canadian dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Net assets attributable to holders of redeemable units, beginning of year	$ 6,915,324	$ 8,106,124
Decrease in net assets attributable to holders of redeemable units	(138,277)	(779,475)
Capital transactions:		
Proceeds from issue of redeemable units	286,229	1,120,799
Reinvested distributions	225,658	223,322
Units redeemed	(365,154)	(1,438,988)
	146,733	(94,867)
Distributions to unitholders:		
Net investment income	(333,244)	(316,458)
Net assets attributable to holders of redeemable units, end of year	$ 6,590,536	$ 6,915,324

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Cash Flows
(Expressed in Canadian dollars)

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Decrease in net assets attributable to holders of redeemable units	$ (138,277)	$ (779,475)
Cost of investments purchased	(12,023,977)	(5,005,426)
Proceeds on sale of investments	11,903,894	5,161,296
Adjustments for non-cash items:		
Net realized losses (gains) on investments	1,119,667	(311,217)
Net change in unrealized depreciation (appreciation) on investments	(660,822)	1,402,856
Change in non-cash balances related to operations:		
Due from brokers	(365,701)	91,736
Accrued income receivable	(67,901)	8,963
Accrued liabilities	9,123	(2,289)
Due to brokers	357,761	(114,420)
	133,767	452,024
Financing activities:		
Units redeemed	(365,154)	(1,438,988)
Proceeds from issuance of redeemable units	286,229	1,120,799
Distributions to unitholders of redeemable units	(107,586)	(93,136)
	(186,511)	(411,325)
Increase (decrease) in cash	(52,744)	40,699
Cash, beginning of year	75,342	34,643
Cash, end of year	$ 22,598	$ 75,342

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Schedule of Investments

December 31, 2019

Number of shares	Security	Book value	Fair value	Weight in portfolio
2,700	ATLANTIC POWER PREFERRED CPI PREFERRED EQUITY SERIES 3	$ 32,891	$ 49,275	0.7%
1,600	BCE INC. 1ST PR SERIES 'AB'	24,443	24,592	0.4%
4,700	BCE INC. 1ST PR SERIES 'Y'	71,548	72,004	1.1%
3,300	BANK OF MONTREAL 5-YR RST Cl 'B' PR SER 42	69,910	69,960	1.1%
8,400	BANK OF MONTREAL Cl 'B' PR SER 44	168,263	167,580	2.5%
1,300	BANK OF NOVA SCOTIA (THE) 5-YR NVCC PR SER 40	24,940	25,584	0.4%
1,300	BROOKFIELD OFFICE PROP INC. Cl AAA SER ii	26,011	26,663	0.4%
4,200	CANACCORD FINANCIL INC 5-YR SER 'C'	83,391	69,720	1.1%
9,900	CANADIAN IMPERIAL BANK SERIES '45' PR	209,493	210,870	3.2%
24,100	CANADIAN IMPERIAL BANK SERIES '47' PR	437,426	436,933	6.6%
4,100	ECN CAPITAL CORP. 6.25% 5-YR RESET SER 'C' PR	94,674	83,435	1.3%
17,200	EMERA INCORPORATED PR SERIES 'C'	309,421	315,104	4.8%
6,000	ENBRIDGE INC. PR SER 'F'	95,777	99,060	1.5%
1,900	FAIRFAX FINANCIAL HOLDINGS LTD 5-YR SER 'K'	35,645	36,252	0.6%
37,400	GREAT WEST LIFECO INC 1ST PR SERIES 'N'	767,436	506,396	7.7%
30,800	HUSKY ENERGY INC. SERIES '1' PR	543,956	378,840	5.8%
10,300	HUSKY ENERGY INC. SERIES '5' PR	192,608	196,215	3.0%
8,000	HUSKY ENERGY INC. SERIES '7' PR	156,019	151,040	2.3%
14,500	INDUSTRIAL ALLIANCE INS & FIN SERV 4.3% PR G	272,364	277,675	4.2%
5,000	INDUSTRIAL ALLIANCE INS & FIN SERV INC. PR I	98,568	98,800	1.5%
26,000	INTACT FINANCIAL CORPORATION Cl A SERIES 1	548,614	374,400	5.7%
6,000	INTACT FINANCIAL CORPORATION Cl A SERIES 3	104,941	105,600	1.6%
6,700	INTACT FINANCIAL CORPORATION Cl A SER 7 PR	125,091	126,898	1.9%
7,600	INNERGEX RENEWABLE ENERGY INC. SERIES 'A' PR	119,040	108,300	1.6%
32,600	MANUFLIE FINANCIAL CORP. Cl 1 PR SER '3'	656,079	420,540	6.4%
38,200	ROYAL BANK OF CANADA 1ST PR NON-CUM SER 'AZ'	661,246	669,264	10.2%
21,900	SUN LIFE FINANCIAL INC. Cl A FLTG PR SER 9QR	293,512	288,423	4.4%
12,400	TORONTO-DOMINION BANK (THE) Cl 'A' 1ST PR SER 3	212,961	217,248	3.3%
5,600	TORONTO-DOMINION BANK (THE) 5-YR RST PR SER 18	110,723	111,832	1.7%
14,500	TORONTO-DOMINION BANK (THE) 5-YR RST PR SER 20	281,009	284,055	4.3%
100	TRANSCANADA CORP 1ST PR SERIES '3'	1,444	1,203	0.0%
24,500	TRANSCANADA CORP 1ST PR SERIES '7'	393,059	407,680	6.2%
10,100	TRANSCANADA CORP 1ST PR SERIES '9'	160,406	166,145	2.5%
Total investments		$ 7,382,909	$ 6,577,586	100%

See accompanying notes to financial statements.

1. The Fund:

Malachite Aggressive Preferred Fund (the "Fund") is an unincorporated open-ended mutual fund trust established under the laws of the Province of Ontario by a Master Declaration of Trust (for the Malachite Funds in general) and an associated Fund Regulation (for the Fund itself) as amended January 13, 2005. The address of the Fund's registered office is c/o 10 Page Avenue, York, Ontario M6S 2P5.

The investment objective of the Fund is to generate both capital appreciation and income, while maintaining a relatively low level of risk. To achieve its objectives, the Fund invests in a diverse portfolio of Canadian preferred stocks.

Hymas Investment Management Inc. ("Hymas") is the trustee and manager (the "Investment Manager") of the Fund. The Investment Manager provides investment management services to the Fund and is responsible for the day-to-day operations of the Fund.

These financial statements were authorized for issue by the Investment Manager on March 30, 2020.

2. Basis of preparation:

(a) Basis of accounting:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement:

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss ("FVTPL") which are presented at fair value.

(c) Functional and presentation currency:

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

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

(a) Financial instruments:

(i) Recognition, initial measurement and classification:

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated.

Financial assets and financial liabilities at FVTPL are initially recognized at fair value, with transaction costs recognized in profit or loss. Financial assets or financial liabilities not at FVTPL are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and subsequently measured at amortized cost.

The Fund classifies financial assets and financial liabilities into the following categories:

Financial assets at FVTPL:

- Held for trading: derivative financial instruments; and

- Designated as at FVTPL: debt securities and equity investments.

Financial assets at amortized cost:

- Financial assets: all other financial assets.

Financial liabilities at FVTPL:

- Held for trading: derivative financial instruments and redeemable units; and

- Financial liabilities at amortized cost: all other financial liabilities.

3. Significant accounting policies (continued):

(ii) Fair value measurement:

Investments in securities listed on a public securities exchange or traded on an over-the-counter market are valued at the last bid price on the Toronto Stock Exchange. Securities with no available closing prices are valued at the last available sale or close price. In respect of any unlisted or non-exchange traded securities, or securities for which a closing bid price or last close sale price are unavailable or securities for which market quotations are, in the Investment Manager's opinion, inaccurate, unreliable, or not reflective of all available material information, such securities are valued at their fair value as determined by the Investment Manager.

The fair values of other financial assets and liabilities approximates their carrying values due to the short-term nature of these instruments.

Fair value policies used for financial reporting purposes are the same as those used to measure the net asset value for transactions with unitholders.

(iii) Offsetting:

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

(iv) Derecognition:

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Any interest in such transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

The Fund derecognizes a liability when its contractual obligations are discharged, cancelled or expired.

3. Significant accounting policies (continued):

(b) Cash:

Cash is cash on deposit and is carried at cost, which approximates its fair value.

(c) Other assets and liabilities:

Amounts due from brokers and accrued income receivable are designated as receivables and shown as other assets. They are recorded at amortized cost, which approximates their fair value. Similarly, accrued liabilities and amounts due to brokers are designated as financial liabilities and are recorded at amortized cost, which approximates their fair value.

(d) Redeemable units:

Redeemable units, which are classified as financial liabilities, are measured at the redemption amount and are considered a residual interest in the assets of the Fund after deducting all of its liabilities.

Decrease in net assets attributable to holders of redeemable units per unit in the statement of comprehensive income represents the net decrease in net assets attributable to holders of redeemable units for the year divided by the average number of units outstanding during the year.

Net asset value attributable to holders of redeemable units per unit is computed by dividing the net asset attributable to holders of redeemable units of the Fund at the valuation date by the total number of units of the Fund outstanding.

(e) Investment transactions and income recognition:

All income, net realized and unrealized appreciation (depreciation) and transaction costs are attributable to investments that are designated at FVTPL. Investment transactions are accounted for on the trade date, that is, on the day that a buy or sell order is executed. The cost of investments represents the amount paid for each security, and is determined on an average cost basis including transaction costs. Realized gains and losses on investment transactions are computed as proceeds of disposition less their average cost. The unrealized appreciation or depreciation of investments represents the difference between their average cost and fair value at the year-end date. Dividend income is recorded on the ex-dividend and interest income is recorded daily on an accrual basis.

3. Significant accounting policies (continued):

Income and realized capital gains are distributed to the unitholders in proportion to the amount of equity invested. For management and service fees, refer to note 5.

(f) Transactions costs:

Transaction costs, such as brokerage commission incurred in the purchase and sale of portfolio securities paid to external third parties are recognized as expenses in the statement of comprehensive income based on the trade date.

(g) Critical accounting estimates and judgments:

In preparing these financial statements, the Investment Manager has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(h) Future changes in accounting policies:

(i) Definition of Material (Amendments to IAS 1 and IAS 8):

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8.

The amendments are effective for annual years beginning on or January 1, 2020. Early adoption is permitted.

The definition of material has been aligned across IFRS Standards and the Conceptual Framework for Financial Reporting. The amendments provide a definition and explanatory paragraphs in one place.

Pursuant to the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of general purpose financial statements make on a basis of those financial statements, which provide financial information about a specific reporting entity.

3. Significant accounting policies (continued):

The Fund intends to adopt the amendments in its financial statements for the annual year beginning January 1, 2020. It is not yet known if the amendments will have a material impact.

(ii) Amendments to References to the Conceptual Framework in IFRS Standards:

On March 29, 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the "Framework"), that underpins IFRS. The IASB also issued Amendments to References to the Framework in IFRS to update references in IFRS to previous versions of the Framework.

Both documents are effective from January 1, 2020 with earlier adoption permitted.

The Fund intends to adopt the revised version of the Framework in its financial statements for the annual year beginning on January 1, 2020. The extent of the impact of the adoption of the Framework has not yet been determined.

4. Related party balances:

Included in accrued liabilities are distributions payable to unitholders of $26,471 (2018 - $18,641).

5. Management fees and expenses:

(a) The Investment Manager provides management, distribution and administrative services to the Fund for which it receives a monthly management fee directly from the unitholders and, accordingly, no management fees are reflected in these financial statements.

(b) The Fund is responsible for the payment of all expenses relating to its operations. Operating expenses incurred by the Fund may include, but are not limited to, accounting, legal and audit fees, trustee and custodial fees, portfolio transaction costs, interest and bank charges, administrative costs excluding any salaries to the principal shareholder of the Investment Manager, investor servicing costs and costs of reports and prospectuses.

5. Management fees and expenses (continued):

(c) At its sole discretion, the Investment Manager may absorb expenses of the Fund. The expenses absorbed are shown on the statement of comprehensive income. Such absorptions can be terminated at any time, but can be expected to continue until such time as the Fund is of sufficient size to reasonably absorb all expenses incurred in its operations. It is the current policy of Hymas to absorb all Fund expenses in excess of 0.50%.

6. Income taxes:

The Fund qualified as a mutual fund under the Income Tax Act (Canada) and, accordingly, is not subject to income taxes on the portion of its net income, including net realized gains on investments, which is paid or payable to unitholders. Such distributed income is taxable in the hands of the unitholders.

Temporary differences between the carrying value of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. The most significant temporary difference is that between the reported fair value of the Fund's investment portfolio and its adjusted cost base for income tax purposes. Since the Fund's distribution policy is to distribute all net realized capital gains, future tax liabilities with respect to unrealized capital gains and future tax assets with respect to unrealized capital losses will not be realized by the Fund and are, therefore, not recorded by the Fund. Unused realized capital losses represent future tax assets to the Fund but due to the uncertainty that they will be realized by offsetting future capital gains, no net tax benefit is recorded by the Fund.

As at the taxation year end of December 31, 2019, the Fund had capital losses of approximately $1,199,580 available to reduce future net realized capital gains.

7. Brokerage commissions:

Commissions paid to brokers in connection with portfolio transactions are disclosed in the statement of comprehensive income of the Fund. The Investment Manager does not have any soft dollar arrangements where third party services such as investment research, statistical or other similar services were paid for by brokers.

(Expressed in Canadian dollars)

8. Redeemable units:

The authorized capital of the Fund consists of an unlimited number of units without par value. The Fund is required to distribute any net income and capital gains that it has earned in the year. Income earned by the Fund is distributed to unitholders at least once per year, if necessary, and these distributions are either paid in cash or reinvested by unitholders into additional units of the Fund. Distributions payable to holders of redeemable units are recognized in the statement of changes in net assets attributable to holders of redeemable units.

Unit transactions for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Opening	796,010.5092	806,053.0970
Subscriptions	34,660.2240	109,835.1579
Distributions reinvested	27,830.4565	22,743.9769
Redemptions	(43,847.8969)	(142,621.7226)
Closing	814,653.2928	796,010.5092

9. Financial instruments:

Essentially all of the assets and liabilities of the Fund are financial instruments. These financial instruments are comprised of investments, amounts due from brokers, cash, accrued income receivable, accrued liabilities and amounts due to brokers. Investments are recorded at fair value based on the accounting policies described above. All other financial instruments are carried at cost or amortized cost, which given their short-term nature, closely approximates their fair value.

The Fund measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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

9. Financial instruments (continued):

Changes in valuation methods may result in transfers into or out of an investment's assigned level. All the Fund's investments were classified as Level 1 as at December 31, 2019 and 2018.

10. Financial instrument risk:

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

(a) Risk management:

The Fund seeks to provide long-term capital growth in addition to a high level of after-tax income through investment primarily in preferred shares and preferred securities listed on the Toronto Stock Exchange. This Fund is sold to investors as a private placement which, therefore, exempts it from issuing a prospectus, providing that the investor meets certain requirements. The Investment Manager takes a conservative approach to risk management by focusing research efforts on the analysis of a market price into its fair and liquidity components, to achieve superior investment returns by selling liquidity to the market, taking advantage of mispricing while at all times keeping the client's tax and commission considerations in view.

10. Financial instrument risk (continued):

(b) Market risk:

(i) Market price risk:

Market price risk arises primarily from uncertainties about future market prices of the instruments held. Market price fluctuations may be caused by factors specific to an individual investment, or factors affecting all securities traded in a market or industry sector. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value. If prices on the Toronto Stock Exchange for these securities, as approximated by either the S&P/TSX Preferred Share Index or the BMO Capital Markets "50" index had increased or decreased by 5% as at December 31, 2019, with all other variables held constant, the net assets of the Fund would have increased or decreased, respectively by approximately $329,500 (2018 - $345,700) (approximately 5.0% of total net assets). In practice the actual results may differ from this sensitivity analysis and the difference could be material.

(ii) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments where the values of those instruments fluctuate due to changes in levels of market interest rates. The majority of the Fund's financial assets are preferred shares, which are not interest-bearing and not included in the computation of overall market interest rates. The Fund's financial liabilities are primarily short-term in nature and generally not interest bearing. Therefore, the Fund's exposure to interest rate risk is best reflected by the yields on preferred shares as reflected by either of the two indices referred to in market price risk, above.

(c) Counterparty credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fair to honour an obligation or commitment that it has entered into with the Fund. The Fund's main exposure to credit risk is its trading of listed securities. It minimizes the concentration of credit risk by trading with a number of counterparties on a recognized and reputable exchange. The risk of default is considered minimal as all transactions are settled and paid for upon delivery using an approved broker. The Fund's maximum credit risk exposure as at the reporting dates is represented by the respective carrying amounts of the financial assets in the statement of financial position.

10. Financial instrument risk (continued):

(d) Liquidity risk:

The Fund is exposed to monthly cash redemptions of units. It, therefore, invests its assets in investments that are traded in an active market and can be readily disposed of. The Fund's listed securities are considered readily realizable.

The Fund's liquidity position is monitored on a regular basis and all the Fund's financial liabilities are short-term in nature and due within 90 days.

(e) Credit risk:

Credit risk on financial instruments is the risk of a financial loss occurring as a result of the default of counterparty on its obligation to the Fund. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and balances due from brokers and receivables. Credit risk is managed by dealing with counterparties the Fund believes to be creditworthy and by regular monitoring of credit exposures.

11. Capital management:

The capital of the Fund is represented by issued redeemable units with no par value. The units of the Fund are entitled to distributions, if any, and any redemptions are based on the Fund's net assets attributable to holders of redeemable shares per unit. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the statement of changes in net assets attributable to holders of redeemable units. The Fund endeavours to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

12. Filing exemption:

The Fund will not be filing its financial statements with the Ontario Securities Commission or any other Canadian securities regulatory authority, in reliance upon the exemption in this regard provided by Section 2.11 of National Instrument 81-106.

13. Subsequent event:

Subsequent to December 31, 2019, the novel coronavirus ("COVID-19") outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

Through March 26, 2020, the Fund's net asset value per unit decreased by $(2.2669) per unit, or approximately (28.02)% of the net asset value per unit at December 31, 2019. As of March 26, 2020, the net assets of the Fund were $4,691,999.81 (unaudited).

There have been no other significant events after the statement of financial position date which in the opinion of the manager requires disclosure in the financial statements.