

# Annual Financial Statements – as at December 31, 2015



## Marret High Yield Strategies Fund

# Table of Contents

Independent Auditor's Report.....	1
MARRET HIGH YIELD STRATEGIES FUND	
<b>Financial Statements</b>	
Statements of Financial Position .....	2
Statements of Comprehensive Income .....	3
Statements of Changes in Net Assets Attributable to Holders of Redeemable Units .....	4
Statements of Cash Flows.....	5
Schedule of Investment Portfolio .....	6
Fund Specific Notes to Financial Statements .....	7
Notes to the Financial Statements.....	14
Legal Notice.....	21

## INDEPENDENT AUDITOR'S REPORT

To the Unitholders and Trustee of:  
Marret High Yield Strategies Fund (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at December 31, 2015 and 2014 and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2015 and 2014 and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

Toronto, Ontario  
March 24, 2016

Chartered Professional Accountants,  
Licensed Public Accountants

# Marret High Yield Strategies Fund

## Financial Statements

### Statements of Financial Position

as at December 31 (in \$ except for per unit amounts and units outstanding)

	2015	2014
<b>Assets</b>		
<b>Current assets</b>		
Investments	26,341,537	35,857,653
Cash	468,119	484
Margin	-	-
Receivable for investments sold	-	-
Receivable for unit subscriptions	-	-
Interest receivable	1	253,955
Dividends receivable	-	-
Other assets	1,314	190,236
Derivative assets	-	-
	26,810,971	36,302,328
<b>Liabilities</b>		
<b>Current liabilities</b>		
Investments sold short	-	-
Bank overdraft	-	-
Due to broker	-	-
Margin	-	-
Payable for investments purchased	-	-
Payable for unit redemptions	-	-
Management fees payable	-	-
Other accrued expenses	46,105	121,344
Distributions payable to holders of redeemable units	-	-
Dividends payable on investments sold short	-	-
Interest payable on investments sold short	-	-
Derivative liabilities	-	-
	46,105	121,344
<b>Net assets attributable to holders of redeemable units</b>	<b>26,764,866</b>	<b>36,180,984</b>
<b>Net assets attributable to holders of redeemable units per unit:</b>		
Class A	0.73	0.99
<b>Number of redeemable units outstanding:</b>		
Class A	36,729,002	36,729,002

The accompanying notes are an integral part of these financial statements.

# Marret High Yield Strategies Fund

## Financial Statements

### Statements of Comprehensive Income

for the years ended December 31 (in \$ except for per unit amounts and number of units)

	2015	2014
<b>Income</b>		
Net gain (loss) on investments and derivatives		
Dividends	-	-
Interest for distribution purposes	5,709,438	80,865
Derivative income (loss)	-	42
Interest expense on investments sold short	-	-
Dividend expense on investments sold short	-	-
Counterparty fees	-	(391,694)
Net realized gain (loss) on sale of investments and derivatives	13,652,954	26,677,137
Net realized foreign exchange gain (loss) on investments and derivatives	-	(39)
Change in unrealized appreciation (depreciation) in value of investments and derivatives	(2,948,124)	(35,322,697)
<b>Total net gain (loss) on investments and derivatives</b>	<b>16,414,268</b>	<b>(8,956,386)</b>
Other income		
Foreign exchange gain (loss) on cash	-	199
Change in unrealized foreign exchange gain (loss) on cash	68	29
Other income	3,233	-
<b>Total other income</b>	<b>3,301</b>	<b>228</b>
<b>Total income</b>	<b>16,417,569</b>	<b>(8,956,158)</b>
<b>Expenses</b>		
Management fees (Note 5)	-	359,563
Operating fees	-	-
Fund administration expense	-	-
Audit fees	24,420	31,229
Legal fees	-	99,154
Trustee fees	3,045	5,257
Transfer agent fees	5,723	14,574
Custodial and administrative fees	3,316	36,077
Independent review committee fees	-	-
Unitholders reporting costs	-	-
Commissions and other portfolio transaction costs	-	-
Professional fees	-	3,210
Regulatory fees	13,424	58,240
Security borrowing fees	-	-
Service expense	-	576,103
Other expenses	-	4,480
Interest expense	-	1
Withholding taxes	-	-
<b>Total expenses</b>	<b>49,928</b>	<b>1,187,888</b>
Expenses absorbed by the manager	-	-
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>16,367,641</b>	<b>(10,144,046)</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit:</b>		
Class A	0.45	(0.27)
<b>Weighted average number of units:</b>		
Class A	36,729,002	36,748,038

The accompanying notes are an integral part of these financial statements.

# Marret High Yield Strategies Fund

## Financial Statements

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units  
for the years ended December 31 (in \$)

	2015	2014
<b>Class A</b>		
<b>Net assets attributable to holders of redeemable units at the beginning of year</b>	36,180,984	331,011,022
Increase (decrease) in net assets attributable to holders of redeemable units	16,367,641	(10,144,046)
<b>Distributions to holders of redeemable units</b>		
From net investment income	-	-
From net realized gains	-	-
Return of capital	(25,783,759)	(284,303,802)
<b>Total distributions to holders of redeemable units</b>	<b>(25,783,759)</b>	<b>(284,303,802)</b>
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	-	-
Reinvestment of distributions to holders of redeemable units	-	-
Redemption of redeemable units	-	(382,190)
<b>Net increase (decrease) from redeemable unit transactions</b>	<b>-</b>	<b>(382,190)</b>
<b>Net increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>(9,416,118)</b>	<b>(294,830,038)</b>
<b>Net assets attributable to holders of redeemable units at the end of year</b>	<b>26,764,866</b>	<b>36,180,984</b>

The accompanying notes are an integral part of these financial statements.

# Marret High Yield Strategies Fund

## Financial Statements

### Statements of Cash Flows

for the years ended December 31 (in \$)

	2015	2014
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	16,367,641	(10,144,046)
Adjustments for:		
Net realized (gain) loss on sale of investments and derivatives	(13,652,954)	(26,677,137)
Change in unrealized (appreciation) depreciation in value of investments and derivatives	2,948,124	35,322,697
Change in unrealized foreign exchange (gain) loss on cash	(68)	(29)
Proceeds from sale and maturity of investments and derivatives	20,220,946	324,778,012
Purchase of investments	-	(35,854,747)
(Increase) decrease in margin	-	-
(Increase) decrease in interest receivable	253,954	(253,918)
(Increase) decrease in dividends receivable	-	-
(Increase) decrease in other receivables	188,922	(88,553)
Increase (decrease) in due to broker	-	-
Increase (decrease) in interest payable on investments sold short	-	-
Increase (decrease) in dividends payable on investments sold short	-	-
Increase (decrease) in other liabilities	(75,239)	(630,153)
<b>Net cash from (used in) operating activities</b>	<b>26,251,326</b>	<b>286,452,126</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from issuance of redeemable units	-	-
Amounts paid on redemption of redeemable units	-	(382,190)
Distributions paid to holders of redeemable units, net of reinvested distributions	(25,783,759)	(286,143,299)
<b>Net cash from (used in) financing activities</b>	<b>(25,783,759)</b>	<b>(286,525,489)</b>
Change in unrealized foreign exchange gain (loss) on cash	68	29
Net increase (decrease) in cash	467,567	(73,363)
Cash (bank overdraft), beginning of year	484	73,818
<b>Cash (bank overdraft), end of year</b>	<b>468,119</b>	<b>484</b>
<b>Supplementary Information:</b>		
Dividends received, net of withholding tax*	-	-
Interest received, net of withholding tax*	5,963,392	80,865
Dividends paid*	-	-
Interest paid*	-	-

\*Dividends and interest received as well as dividends and interest paid relate to operating activities of the Fund.  
The accompanying notes are an integral part of these financial statements.

# Marret High Yield Strategies Fund

Schedule of Investment Portfolio as at December 31, 2015

No. of Shares/ Par Value	Description	Average Cost (\$)	Fair Value (\$)
<b>CANADIAN BONDS</b>			
<b>Canadian Corporate Bonds (98.42%)</b>			
25,269,869	Cline Mining Corp., Floating Rate, 2022/07/08	25,269,869	24,189,708
2,247,916	Cline Mining Corp., Floating Rate, 2022/07/08	2,247,916	2,151,829
12,004,678	Data & Audio-Visual Enterprises Holdings Inc., Pay-In-Kind, Callable, 15.000%, 2018/09/25	-	-
		<b>27,517,785</b>	<b>26,341,537</b>
	<b>Total Canadian Bonds (98.42%)</b>	<b>27,517,785</b>	<b>26,341,537</b>
<b>CANADA EQUITIES</b>			
<b>Canadian Equities (0.00%)</b>			
6,878,247	Cline Mining Corp., Convertible	1,768,969	-
267,717	Data & Audio-Visual Enterprises Holdings Inc., Class 'B', Warrants, 2018/09/25	-	-
114,142	Data & Audio-Visual Enterprises Holdings Inc., Warrants, 2018/09/25	-	-
53,471	Pacific Coal Resources Ltd., Warrants, 2016/03/14	-	-
348,500	Xinergy Ltd., Warrants, 2017/08/13	-	-
		<b>1,768,969</b>	<b>-</b>
	<b>Total Canadian Equities (0.00%)</b>	<b>1,768,969</b>	<b>-</b>
	<b>Total Investments (98.42%)</b>	<b><u>29,286,754</u></b>	<b>26,341,537</b>
	<b>Other Assets, Less Liabilities (1.58%)</b>		<b>423,329</b>
	<b>Net Assets Attributable to Holders of Redeemable Units (100.00%)</b>		<b><u>26,764,866</u></b>

Percentages shown in brackets relate investments at fair value to net assets attributable to holders of redeemable units of the Fund.



# Marret High Yield Strategies Fund

## Fund Specific Notes to Financial Statements

### Financial Instruments by Category (Note 2)

The following tables present the carrying amounts of the Fund's financial instruments by category:

as at December 31, 2015

	Held for Trading (in \$)	Financial Assets/ Liabilities as FVTPL Designated at Inception (in \$)	Total (in \$)	Financial Assets/ Liabilities at Amortized Cost (in \$)	Total (in \$)
<b>Assets</b>					
Investments	-	26,341,537	26,341,537	-	26,341,537
Cash	-	-	-	468,119	468,119
Margin	-	-	-	-	-
Receivable for investments sold	-	-	-	-	-
Receivable for unit subscriptions	-	-	-	-	-
Interest receivable	-	-	-	1	1
Dividends receivable	-	-	-	-	-
Other assets	-	-	-	1,314	1,314
Derivative assets	-	-	-	-	-
	-	26,341,537	26,341,537	469,434	26,810,971
<b>Liabilities</b>					
Investments sold short	-	-	-	-	-
Bank overdraft	-	-	-	-	-
Due to broker	-	-	-	-	-
Margin	-	-	-	-	-
Payable for investments purchased	-	-	-	-	-
Payable for unit redemptions	-	-	-	-	-
Management fees payable	-	-	-	-	-
Other accrued expenses	-	-	-	46,105	46,105
Distributions payable to holders of redeemable units	-	-	-	-	-
Dividends payable on investments sold short	-	-	-	-	-
Interest payable on investments sold short	-	-	-	-	-
Derivative liabilities	-	-	-	-	-
	-	-	-	46,105	46,105

The accompanying notes are an integral part of these financial statements.

# Marret High Yield Strategies Fund

*Fund Specific Notes to Financial Statements*

## Financial Instruments by Category (Note 2) (cont'd)

as at December 31, 2014

	Held for Trading (in \$)	Financial Assets/ Liabilities as FVTPL Designated at Inception (in \$)	Total (in \$)	Financial Assets/ Liabilities at Amortized Cost (in \$)	Total (in \$)
<b>Assets</b>					
Investments	-	35,857,653	35,857,653	-	35,857,653
Cash	-	-	-	484	484
Margin	-	-	-	-	-
Receivable for investments sold	-	-	-	-	-
Receivable for unit subscriptions	-	-	-	-	-
Interest receivable	-	-	-	253,955	253,955
Dividends receivable	-	-	-	-	-
Other assets	-	-	-	190,236	190,236
Derivative assets	-	-	-	-	-
	-	35,857,653	35,857,653	444,675	36,302,328
<b>Liabilities</b>					
Investments sold short	-	-	-	-	-
Bank overdraft	-	-	-	-	-
Due to broker	-	-	-	-	-
Margin	-	-	-	-	-
Payable for investments purchased	-	-	-	-	-
Payable for unit redemptions	-	-	-	-	-
Management fees payable	-	-	-	-	-
Other accrued expenses	-	-	-	121,344	121,344
Distributions payable to holders of redeemable units	-	-	-	-	-
Dividends payable on investments sold short	-	-	-	-	-
Interest payable on investments sold short	-	-	-	-	-
Derivative liabilities	-	-	-	-	-
	-	-	-	121,344	121,344

*The accompanying notes are an integral part of these financial statements.*

# Marret High Yield Strategies Fund

## Fund Specific Notes to Financial Statements

### Net Gain (Loss) on Financial Instruments (Note 2) for the years ended December 31 (in \$)

The following table presents the net gain (loss) on financial instruments at FVTPL by category.

	2015	2014
<b>Financial Instruments at FVTPL</b>		
Held for trading	-	(9,039,992)
Designated at fair value through profit or loss	16,414,268	83,606
<b>Total</b>	<b>16,414,268</b>	<b>(8,956,386)</b>

### Redeemable Unit Transactions (Note 4) for the years ended December 31

	2015	2014
<b>Class A</b>		
<b>Number of redeemable units at the beginning of year</b>	36,729,002	36,789,967
Redeemable units issued for cash	-	-
Redeemable units issued for reinvested distributions	-	-
Redeemable units redeemed	-	(60,965)
<b>Number of redeemable units at the end of year</b>	<b>36,729,002</b>	<b>36,729,002</b>

### Loss Carry Forwards (Note 6) as at December 31 (in \$)

	2015
<b>Net capital loss carried forward:</b>	-
<b>Non-capital losses expiring:</b>	
2026	-
2027	-
2028	-
2029	-
2030	-
2031	-
2032	2,319,000
2033	1,030,508
2034	-
2035	-
<b>Total Non-capital losses</b>	<b>3,349,508</b>

The accompanying notes are an integral part of these financial statements.

# Marret High Yield Strategies Fund

## Fund Specific Notes to Financial Statements

### Financial Instruments Risks (Note 7)

#### Concentration Risk

For Concentration Risk as at December 31, 2015, refer to the Schedule of Investment Portfolio.

The Fund's investments were concentrated in the following segments:

as at December 31, 2014

	% of Net Assets Attributable to Holders of Redeemable Units
Canadian Corporate Bonds	99.11
<b>Total Bonds</b>	<b>99.11</b>
Canadian Equities	-
<b>Total Equities</b>	<b>-</b>
<b>Total Investments</b>	<b>99.11</b>

#### Credit Risk

The Fund was invested in fixed income securities, preferred securities and derivative instruments, if any, with the following credit ratings, as per the tables below.

as at December 31, 2015

Credit Rating <sup>^</sup>	% of Net Assets Attributable to Holders of Redeemable Units		
	Long	Short	Net
Unrated	98.42	-	98.42
<b>Total</b>	<b>98.42</b>	<b>-</b>	<b>98.42</b>

as at December 31, 2014

Credit Rating <sup>^</sup>	% of Net Assets Attributable to Holders of Redeemable Units		
	Long	Short	Net
Unrated	99.11	-	99.11
<b>Total</b>	<b>99.11</b>	<b>-</b>	<b>99.11</b>

<sup>^</sup>Credit ratings are obtained from Standard & Poor's, where available, otherwise ratings are obtained from: Moody's Investors Service or Dominion Bond Rating Service, respectively.

#### Other Price Risk

As at December 31, 2015 and 2014, the other price risk exposure of the Fund was insignificant as the Fund was invested in fixed income securities.

#### Currency Risk

As at December 31, 2015 and 2014, the Fund's investments were predominantly denominated in Canadian dollars, the functional currency of the Fund. As a result, the Fund exposure to currency risk was insignificant.

# Marret High Yield Strategies Fund

## Fund Specific Notes to Financial Statements

### Interest Rate Risk

The tables below summarize the Fund's exposure to interest rate risk, categorized by the contractual maturity date.

as at December 31, 2015

<b>Bonds</b>	<b>Long (in \$)</b>	<b>Short (in \$)</b>	<b>Net (in \$)</b>
< 1 year	-	-	-
1-3 years	-	-	-
3-5 years	-	-	-
> 5 years	26,341,537	-	26,341,537
<b>Total</b>	<b>26,341,537</b>	<b>-</b>	<b>26,341,537</b>

as at December 31, 2014

<b>Bonds</b>	<b>Long (in \$)</b>	<b>Short (in \$)</b>	<b>Net (in \$)</b>
< 1 year	33,586,895	-	33,586,895
1-3 years	-	-	-
3-5 years	2,270,758	-	2,270,758
> 5 years	-	-	-
<b>Total</b>	<b>35,857,653</b>	<b>-</b>	<b>35,857,653</b>

As at December 31, 2015, had the prevailing interest rates increased or decreased by 1% (December 31, 2014 - 1%), with all other variables held constant, net assets attributable to holders of redeemable units of the Fund would have indirectly decreased or increased, respectively, by approximately \$65,590 (December 31, 2014 - \$66,465). In practice, the actual results may differ from this analysis and the difference may be material.

### Fair Value Hierarchy

The tables below summarize the inputs used by the Fund in valuing the Fund's investments and derivatives carried at fair value.

as at December 31, 2015

	<b>Level 1 (in \$)</b>	<b>Level 2 (in \$)</b>	<b>Level 3 (in \$)</b>	<b>Total (in \$)</b>
Bonds	-	-	26,341,537	26,341,537
Equities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>26,341,537</b>	<b>26,341,537</b>

as at December 31, 2014

	<b>Level 1 (in \$)</b>	<b>Level 2 (in \$)</b>	<b>Level 3 (in \$)</b>	<b>Total (in \$)</b>
Bonds	-	2,270,758	33,586,895	35,857,653
Equities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>2,270,758</b>	<b>33,586,895</b>	<b>35,857,653</b>

There were no transfers between Level 1, 2 and 3 during the years ended December 31, 2015 and 2014.

# Marret High Yield Strategies Fund

## Fund Specific Notes to Financial Statements

### Level 3 Reconciliation

The tables below summarize the movement in financial instruments classified as Level 3.

for the year ended December 31, 2015

	Balance at Dec. 31, 2014 (in \$)	Purchases (in \$)	Sales (in \$)	Transfers In (in \$)	Transfers (Out) (in \$)	Realized Gain (Loss) (in \$)	Change in Unrealized Appreciation (Depreciation)^ (in \$)	Balance at Dec. 31, 2015 (in \$)
Bonds	33,586,895	-	(17,512,398)	-	-	13,247,470	(2,980,430)	26,341,537
Equities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>33,586,895</b>	<b>-</b>	<b>(17,512,398)</b>	<b>-</b>	<b>-</b>	<b>13,247,470</b>	<b>(2,980,430)</b>	<b>26,341,537</b>

^Total change in unrealized appreciation (depreciation) related to investments still held at December 31, 2015 was (\$2,980,430).

for the year ended December 31, 2014

	Balance at Dec. 31, 2013 (in \$)	Purchases (in \$)	Sales (in \$)	Transfers In (in \$)	Transfers (Out) (in \$)	Realized Gain (Loss) (in \$)	Change in Unrealized Appreciation (Depreciation) (in \$)	Balance at Dec. 31, 2014 (in \$)
Bonds	-	33,586,895	-	-	-	-	-	33,586,895
Equities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>33,586,895</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,586,895</b>

Upon settlement of Forward Purchase Agreement on May 30, 2014, two private securities held by the Marret HYS Trust were transferred into the Fund and classified as Level 3.

# Marret High Yield Strategies Fund

## Fund Specific Notes to Financial Statements

### Level 3 Reconciliation (cont'd)

The tables below summarize the significant unobservable inputs used in fair value measurement of the Level 3 investments and the impact to the valuation of a reasonably possible change to the significant unobservable input. There is inherently significant measurement uncertainty associated with such investments. The actual results on realization of the positions could materially differ from the estimates of fair value on the reporting date.

for the year ended December 31, 2015

Description	Fair Value (in \$)	Valuation Technique	Unobservable Inputs	Change in Valuation + (in \$)	Change in Valuation - (in \$)
Data & Audio-Visual Enterprises Holdings Inc., Pay-In-Kind, Callable, 15.000%, 2018/09/25	-	Estimated realized value	Probability of collection	-	-
Cline Mining Corp., Floating Rate, 2022/07/08	24,189,708	Discounted Cash Flow	Discount rate	3,998,669	(9,177,659)
Cline Mining Corp., Floating Rate, 2022/07/08	2,151,829	Discounted Cash Flow	Discount rate	355,707	(816,411)
<b>Total</b>	<b>26,341,537</b>			<b>4,354,376</b>	<b>(9,994,070)</b>

for the year ended December 31, 2014

Description	Fair Value (in \$)	Valuation Technique	Unobservable Inputs	Change in Valuation + (in \$)	Change in Valuation - (in \$)
Data & Audio-Visual Enterprises Holdings Inc., Pay-In-Kind, Callable, 15.000%, 2018/09/25	-	Estimated realized value	Probability of collection	-	-
Data & Audio-Visual Enterprises Holdings Inc., 15.500%, 2014/01/14	4,264,928	Estimated realized value	Probability of collection	10	(4,264,938)
Cline Mining Corp., Restricted, 10.000%, 2014/06/15	26,926,669	Estimated realized value	Probability of collection	4,038,999	(5,385,332)
Cline Mining Corp., Convertible, Restricted, 10.000%, 2014/06/15	2,395,298	Estimated realized value	Probability of collection	416,817	(555,757)
<b>Total</b>	<b>33,586,895</b>			<b>4,455,826</b>	<b>(10,206,027)</b>

Level 3 bonds consist of certain bond issues currently in distressed situations. The valuation for Cline Mining Corp. ("Cline") took into account the capital structure positioning and value relating to the expected cash flows of the company.

# Marret High Yield Strategies Fund

## Notes to the Financial Statements

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### 1. THE FUND

Marret High Yield Strategies Fund (the "Fund") is a closed-end investment fund established under the laws of the Province of Ontario and is governed by a declaration of trust dated May 28, 2009. Marret Asset Management Inc. ("Marret" or the "Manager") is the manager of the Fund and provides all administrative services required by the Fund. CIBC Mellon Trust Company is the custodian (the "Custodian") of the Fund.

Units of the Fund commenced trading on June 17, 2009 on the Toronto Stock Exchange ("TSX"). Net proceeds of \$214.6 million (net of issue costs of \$12.73 million) were raised in the initial public offering and exercise of the over-allotment option to brokers, on the issuance of 22,730,000 units.

The Fund made additional offerings of units in October 2010, September 2011 and February 2012. In October 2010, net proceeds of \$167.3 million (net of issue costs of \$7.4 million) were raised in an offering and exercise of the over-allotment option to brokers, on the issuance of 15,666,109 units. In September 2011, net proceeds of \$225.3 million (net of issue cost of \$9.8 million) were raised in an offering and exercise of the over-allotment option to brokers on the issuance of 21,275,000 units. In February 2012, net proceeds of \$215.2 million (net of issue cost of \$9.4 million) were raised in an offering and exercise of the over-allotment option to brokers on the issuance of 21,085,000 units. On February 28, 2013, the Fund completed a private placement for net proceeds of \$7.9 million (net of issue costs of \$0.3 million) on the issuance of 812,000 units.

In December 2013, CI Financial Corp. completed its acquisition of 65% of the issued and outstanding common shares of the Manager. The effective closing date of this transaction was November 29, 2013. CI Financial Corp. is a diversified wealth management company publicly traded on the TSX under the symbol CIX.

The address of the Fund's registered office is 200 King Street West, M5H 3T4, Toronto, Ontario. These financial statements are authorized for issue by the Manager on March 24, 2016.

The Fund is currently terminating pursuant to its Declaration of Trust which provides that, to the extent that the affairs of the Fund have not been completely wound up and all of the assets distributed to Unitholders on or prior to the May 30, 2014 ("Termination Date"), the Declaration of Trust shall continue in force and effect to the extent necessary or desirable to permit the Trustee to complete the winding up of the affairs of the Fund and distribute the remaining assets to Unitholders as soon as practicable and, in such event, the Trustee shall carry on no activities on behalf of the Fund except for the purpose of winding up the affairs of the Fund. The Manager is not actively investing the assets of the Fund which currently is made up of one illiquid position: Cline Mining Corp. (the "Cline"). The Manager is seeking to liquidate the Cline position as soon as practicable and distribute the proceeds (net any amount necessary to provide for the liabilities of the Fund) to Unitholders.

Previously and up until the Termination Date, the Fund's investment objectives were:

- i. to maximize total returns for holders of units consisting of both tax-advantaged distributions and capital appreciation, while reducing risk; and
- ii. to provide unitholders with attractive monthly tax-advantaged cash distributions

#### **Prior to May 30, 2014**

To provide the Fund with the means to meet its investment objectives, the Fund used the net proceeds of its offerings to prepay its obligations under a forward purchase and sale agreement (the "Forward Purchase Agreement") with The Bank of Nova Scotia (the "Counterparty"). Such net proceeds were invested by the Counterparty in Marret HYS Trust (the "Trust" or the "Underlying Trust"). The cash received from the Counterparty was used by the Trust to purchase the portfolio securities (the "Portfolio").

The Fund was allowed to partially settle the Forward Purchase Agreement prior to the Termination Date in order to fund (i) redemptions, distributions, and repurchases of units; and (ii) operating expenses and other liabilities of the Funds. Pursuant to the terms of the Forward Purchase Agreement, the Counterparty could, in connection with a requested partial settlement deliver to the Fund securities of certain issuers in the portfolio of securities based on the partial settlement amount.

The Counterparty was The Bank of Nova Scotia rated AA by the Dominion Bond Rating Service. Until the additional offering in February 2012, the obligations of the Counterparty under the Forward Purchase Agreement were unsecured. Due to regulatory changes prior to the February 2012 offering, the February 2012 offering was collateralized by a portfolio of TSX listed equity securities. Following the closing and to address future partial settlements, it was agreed that 26% of the Forward Purchase Agreement would be collateralized on an ongoing basis. The collateral was set-up for the benefit of all units, not just those issued in the February 2012 opening. Fees paid to the Counterparty as of December 31, 2014 - \$391,694.



# Marret High Yield Strategies Fund

## Notes to the Financial Statements (cont'd)

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Pursuant to the Forward Purchase Agreement, on May 30, 2014 the Counterparty acquired the portfolio, other than the Private Portfolio (as defined below), having value based on the economic return provided by the portfolio securities from inception to the Termination Date. Under the Forward Purchase Agreement, the Counterparty delivered, on the Termination Date, a specified portfolio of securities with an aggregate value equal to the distribution proceeds of all of the corresponding units of the Trust, net of any amount then owing by the Fund to the Counterparty.

### **After May 30, 2014**

The Fund continued after the Termination Date in order to hold two private securities, that remained in the Portfolio, Cline and Data & Audio Visual Enterprises Holdings Inc. ("Mobilicity") (Cline and Mobilicity, collectively, the "Private Portfolio"). The positions in Mobilicity were liquidated in two tranches and the proceeds were distributed to the unitholders of the Fund on September 25, 2015 and November 13, 2015. As the Fund is terminating, the Fund is only seeking to liquidate its holdings in Cline.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with *International Financial Reporting Standards* ("IFRS") as published by the *International Accounting Standards Board* ("IASB"). The following is a summary of the significant accounting policies of the Fund:

### **a) Classification and recognition of financial instruments**

The Fund recognizes financial instruments at fair value upon initial recognition, inclusive of transaction costs in the case of financial instruments not measured at fair value through profit or loss. Purchases and sales of financial assets are recognized at their trade date. The Fund's investments and derivative assets and liabilities are measured at fair value through profit or loss ("FVTPL"). The Fund's obligations for net assets attributable to holders of redeemable units are presented at the redemption amount, which approximates their fair value. All other financial assets and liabilities are measured at amortized cost, which approximates their fair value. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the effective rate of interest.

### **b) Fair valuation of financial instruments**

At the financial reporting date, listed securities are valued based on the last traded market price for financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the existing market conditions. Unlisted securities are valued based on price quotations from recognized investment dealers, or failing that, their fair value is determined by the Manager on the basis of the latest reported information available. Fixed income securities, debentures and other debt instruments, including short-term investments, are valued at the quotation from recognized investment dealers.

The fair value of private placements is determined by using valuation models that may be based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indications of value. These values are independently assessed by the Manager to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for these securities may be materially different from the values that would have been used had a ready market for the investment existed. The fair values of private placements are affected by the perceived credit risks of the issuer, predictability of cash flows and the length of time to maturity.

### **c) Financial assets and liabilities at fair value**

The Fund classifies its investments in equity, fixed income securities and derivatives as financial assets or financial liabilities at fair value through profit or loss.

This category has two sub-categories: financial assets or financial liabilities held for trading and those designated at fair value through profit or loss at inception.

#### ***Financial assets or financial liabilities held for trading***

A financial asset or financial liability is classified as held for trading ("HFT") if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. The Fund's derivative instruments and warrants are categorized as HFT.

# Marret High Yield Strategies Fund

## Notes to the Financial Statements (cont'd)

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### **Financial assets or financial liabilities designated at fair value through profit or loss at inception**

Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as HFT but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's investments excluding derivative instruments and warrants are designated as FVTPL.

### **d) Cash**

Cash consists of deposits with financial institutions.

### **e) Cost of investments**

Cost of investments represents the amount paid for each security and is determined on an average cost basis excluding commissions and transaction costs.

### **f) Investment transactions and income recognition**

Investment transactions are recorded on the trade date – the date on which the Fund commits to purchase or sell the investment. The "Interest for distribution purposes" shown on the Statements of Comprehensive Income represents the coupon interest received by the Fund and is accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis.

Dividends and distributions from investments are recognized on the ex-dividend/ex-distribution date.

### **g) Functional currency**

The Fund's subscriptions and redemptions are denominated in Canadian dollars, which is also the Fund's functional and presentation currency.

### **h) Foreign exchange**

Foreign currency amounts are translated into the functional currency as follows: fair value of investments, foreign currency forward contracts and other assets and liabilities at the closing rate of exchange on each business day; income and expenses, purchases and sales and settlements of investments at the rate of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) relating to cash are presented as "Foreign exchange gain (loss) on cash" and "Change in unrealized foreign exchange gain (loss) on cash" and those relating to investments and derivatives are presented within "Net realized gain (loss) on sale of investments and derivatives" and "Change in unrealized appreciation (depreciation) in value of investments and derivatives" in the Statements of Comprehensive Income.

### **i) Unit valuation**

The total net asset value ("NAV") is calculated by subtracting the aggregate amount of the liabilities from the total assets of the Fund. The net asset value per unit is calculated by dividing the total net asset value by the number of units outstanding at the end of the year.

As at December 31, 2015 and 2014, there were no differences between the NAV used for transactions with unitholders and the net assets attributable to holders of redeemable units used for reporting purposes under IFRS.

### **j) Classification of units**

The units of the Fund do not meet the criteria in IAS 32 for classification as equity and therefore, have been classified as liabilities. The Fund's units meet the classification as liability because the Fund's units have ongoing redemption option as well as fixed termination date.

### **k) Commissions and other portfolio transaction costs**

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities, are included in "Commissions and other portfolio transaction costs" in the Statements of Comprehensive Income.

### **l) Increase (decrease) in net assets attributable to holders of redeemable units per unit**

Increase (decrease) in net assets attributable to holders of redeemable units per unit in the Statements of Comprehensive Income is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units by the weighted average number of units outstanding during the year.

# Marret High Yield Strategies Fund

Notes to the Financial Statements (cont'd)

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## **m) Forward purchase agreement**

The fair value of the Forward Purchase Agreement is the value that would be realized if, as of any date, the Forward Purchase Agreement was settled in accordance with its terms, in which case the value shall be determined with reference to the fair market value of the underlying investments of the Trust using closing sale prices. If no sale has taken place that day, valuation will be at the average of the bid and ask price. The value takes into account amounts equal to other assets including cash, prepaids and distributions receivable, less the liabilities of the Trust on such date. The change in unrealized appreciation (depreciation) on the Forward Purchase Agreement and the realized gains (losses) on partial settlements on the Forward Purchase Agreement are included in the Statements of Comprehensive Income.

## **n) Return of capital**

Distributions received as return of capital ("ROC") from investments reduce the adjusted cost base ("ACB") of the underlying investments. Distributions received from investments are allocated initially as dividends, interest, capital gains, or ROC based on estimates of the categorization of distributions received from the underlying issuers. These allocations may change once the final categorization of the distributions is received on an annual basis from the underlying issuers.

## **o) Withholding taxes**

The Fund may, from time to time, incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown separately in the Statements of Comprehensive Income.

## **p) Accounting standards issued but yet not adopted**

### ***IFRS 9, Financial Instruments***

The final version of IFRS 9, *Financial Instruments*, was issued by the IASB in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however it is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Fund's Manager is in the process of assessing the impact of IFRS 9 on the Fund and has not yet determined when it will adopt the new standard.

## **3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the reporting date and the reported amounts of income and expenses during the reporting year. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing its financial statements:

### ***Fair value measurement of investments and derivatives not quoted in active market***

The Fund may, from time to time, hold financial instruments that are not quoted in active markets, such as unlisted securities, private securities or derivatives. Unlisted securities are valued based on price quotations from recognized investment dealers, or failing that, their fair value is determined by the Manager on the basis of the latest reported information available. The fair value of private securities is determined by using valuation models that may be based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indications of value. These values are independently assessed by the Manager to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for these securities may be materially different from the values that would have been used had a ready market for the investment existed. The fair values of private securities are affected by the perceived credit risks of the issuer, predictability of cash flows and the length of time to maturity.

Valuation models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty); volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

# Marret High Yield Strategies Fund

## Notes to the Financial Statements (cont'd)

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The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

### **Classification and measurement of investments and application of the fair value option**

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for the financial assets under IAS 39, *Financial Instruments – Recognition and Measurement*. The most significant judgment made includes the determination that the fair value option can be applied to those investments that are not HFT.

## 4. REDEEMABLE UNITS

Units issued and outstanding represent the capital of the Fund.

The Manager is responsible for managing the Fund's investments in line with its mandate and the affairs of the Fund.

Prior to May 30, 2014, as set out in the declaration of trust, the Fund is authorized to issue an unlimited number of transferable, redeemable units of one class. On May 30, 2014, the Fund has reached its Termination Date and is in the process of terminating. There are currently no redemption rights for unitholders. All units have equal rights and privileges, each of which represents an equal, undivided interest in the net assets of the Fund. Each whole unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund and distributions upon the termination of the Fund.

As at December 31, 2015, the fair value of the Fund's net assets based on the TSX closing market price was \$1,652,805 (December 31, 2014 - \$4,223,835).

Redeemable unit transactions information appears in the Fund Specific Notes to Financial Statements.

### **Monthly Redemptions prior to May 30, 2014**

The monthly redemption date is the second last business day of each month. Units may be redeemed at the option of unitholders on a monthly redemption date, subject to certain conditions and, in order to effect such a redemption, the units must be surrendered on the date which is the last business day of the month preceding the monthly redemption date. Payment of the redemption price will be made on or before the redemption payment date.

Unitholders surrendering a unit for monthly redemption will receive a redemption price equal to the lesser of: (i) 94% of the weighted average trading price on the TSX for the 10 days immediately preceding the monthly redemption date, and (ii) 100% of the TSX closing market price, or if no closing price is provided then the average of the highest and lowest traded price, or if highest and lowest trades are not available, then the average of the last bid and last ask, in each instance in reference to transactions on the monthly redemption date. The proceeds will be net of any costs associated with the redemption including brokerage costs.

## 5. FEES AND EXPENSES

The Fund retained Marret Asset Management Inc., under an administration agreement (the "Administration Agreement") dated May 28, 2009 to administer all of the ongoing operations of the Fund. Prior to May 30, 2014, in consideration for the services provided by the Manager, the Fund paid a management fee equal to 0.25% per annum of the net asset value of the Fund. Prior to settlement of the Forward Purchase Agreement the Fund paid management fees of 1.00% in total when combined with the management fee paid by the Trust. The management fee is calculated and payable monthly in arrears, plus applicable taxes. After May 30, 2014, the Fund no longer pays management fees.

The Manager also paid a service amount calculated and paid as soon as practicable after the end of each calendar quarter, equal to 0.40% per annum of the net asset value attributable to the units plus applicable taxes. The service fee was in turn paid to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

Prior to the Termination Date the Fund paid to the Counterparty an additional amount under the Forward Purchase Agreement, calculated weekly and payable quarterly in arrears. The amount was 0.25% per annum of the notional amount of the Forward Purchase Agreement (being effectively equal to the net asset value of the Trust).

# Marret High Yield Strategies Fund

## Notes to the Financial Statements (cont'd)

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All other reasonable expenses in connection with the administration of the Fund are paid by the Fund.

### 6. INCOME TAXES

The Fund qualifies as a mutual fund trust under the *Income Tax Act* (Canada). A mutual fund trust is subject to tax on its net investment income for the year, including any net realized capital gains, which are not paid or payable to its unitholders. The financial statements of the Fund do not include a provision for income taxes because under the terms of the declaration of trust, net investment income and net realized capital gains are distributed each year to unitholders and are taxable in the unitholders' hands. Since the Fund does not record its income taxes, the tax benefit of capital and non-capital losses have not been reflected in the Statements of Financial Position as deferred income tax asset.

The Fund did not realize any income, gain or loss as a result of entering into the Forward Purchase Agreement and no amount was included in the Fund's income by virtue of the acquisition of the Portfolio through final settlement of the Forward Purchase Agreement.

Refer to Fund Specific Notes to Financial Statements for further information relating to Loss Carry Forwards.

### 7. FINANCIAL INSTRUMENT RISK MANAGEMENT

In the normal course of business, the Fund is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including other price risk, currency risk and interest rate risk). The Fund's overall risk management program focuses on compliance and execution of the Fund's investment objectives.

The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisers, daily monitoring of the Fund's positions and market events. To assist in managing risks, the Manager also uses internal guidelines that identify the target exposure for each type of risk, maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations.

#### **Concentration Risk**

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is a geographical allocation, product type, industry sector or counterparty.

Details of the Fund's exposure to concentration risk are available in the Fund Specific Notes to Financial Statements.

#### **Credit Risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The main concentration of credit risk would be investments in debt instruments and derivatives. The fair value of debt instruments and derivatives includes consideration of the credit worthiness of the issuer and therefore represents the maximum credit exposure of the Fund.

Cash balances as disclosed in the Statements of Financial Position are maintained by the Custodian. The Manager monitors the credit worthiness of the Custodian on a regular basis. The credit rating of the Custodian as at December 31, 2015 was A+ (December 31, 2014 – A+).

#### **Liquidity Risk**

The Fund invests in investments that are illiquid. There can be no assurance that an adequate market for the Fund's investments will exist at all times, or that the prices at which the underlying investments trade, accurately reflect their net asset values. All liabilities are due in less than 3 months. Cline Mining Corporation bond positions owned by the Fund are considered illiquid and represent 98.42% of the Fund's net assets attributable to holders of redeemable units at December 31, 2015 (December 31, 2014 - 92.8%).

#### **Market Risk**

The Fund's investments are subject to market risk which is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market conditions.

# Marret High Yield Strategies Fund

## Notes to the Financial Statements (cont'd)

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### *Other Price Risk*

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in a market or market segment.

### *Currency Risk*

Currency risk is the risk that the value of investments will fluctuate due to changes in foreign exchange rates. This risk arises when financial instruments (including cash and cash equivalents) are denominated in a currency other than Canadian dollars, which represents the Fund's functional currency.

### *Interest Rate Risk*

Interest rate risk arises from changes in the prevailing levels of market interest rates, resulting in fluctuations in the value of interest bearing financial instruments.

### **Fair Value Hierarchy**

The Fund classifies its financial instruments that are carried at fair value using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Inputs may be based on independent market data ("observable inputs") or they may be internally developed ("unobservable inputs"). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The three levels of the hierarchy are as follows:

Level (1) - quoted prices (unadjusted) in active markets for identical assets or liabilities

Level (2) - investments with inputs other than quoted prices that are observable for the asset or liability either directly or indirectly

Level (3) - inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

Details of the Fund's exposure to financial instruments risks including concentration risk and the fair value hierarchy classification are available in the Fund Specific Notes to Financial Statements.

# Marret High Yield Strategies Fund

## *Legal Notice*

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You can get additional copies of these Financial Statements, at your request, and at no cost by calling collect (416) 214-5800, by emailing [investors@marret.com](mailto:investors@marret.com), or by asking your representative.

This document and other information about the fund is available at the Marret Asset Management Inc. website at [www.marret.com](http://www.marret.com), or at [www.sedar.com](http://www.sedar.com).



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