

# Annual Financial Statements - December 31, 2018



Marret High Yield Strategies Fund

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## *Independent Auditor's Report*

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

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2018 and 2017;
- the statements of comprehensive income for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### *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 *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

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

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### *Other information*

Management is responsible for the other information. The other information comprises the 2018 Annual Management Report of Fund Performance.

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\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *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 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

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### *Auditor's 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 auditor's 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 these 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 Fund'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Fund 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.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Derek Hatoum.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
March 26, 2019

# Marret High Yield Strategies Fund

## Financial Statements

### Statements of Financial Position

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

	2018	2017
<b>Assets</b>		
<b>Current assets</b>		
Investments	26,591,328	26,341,537
Cash	29,162	382,095
Receivable for investments sold	-	-
Receivable for unit subscriptions	-	-
Interest receivable	-	-
Dividends receivable	-	-
Other assets	76,804	43,634
Derivative assets	-	-
	26,697,294	26,767,266
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank overdraft	-	-
Payable for investments purchased	-	-
Payable for unit redemptions	-	-
Management fees payable	-	-
Other accrued expenses	94,473	85,762
Distributions payable to holders of redeemable units	-	-
Derivative liabilities	-	-
	94,473	85,762
<b>Net assets attributable to holders of redeemable units</b>	<b>26,602,821</b>	<b>26,681,504</b>
<b>Net assets attributable to holders of redeemable units per unit:</b>		
Class A	0.72	0.73
<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)

	2018	2017
<b>Income</b>		
Net gain (loss) on investments and derivatives		
Dividends	-	-
Interest for distribution purposes	7,898	4,741
Net realized gain (loss) on sale of investments and derivatives	-	67,162
Net realized foreign exchange gain (loss) on investments and derivatives	2,156	-
Change in unrealized appreciation (depreciation) in value of investments and derivatives	-	-
<b>Total net gain (loss) on investments and derivatives</b>	<b>10,054</b>	<b>71,903</b>
Other income		
Foreign exchange gain (loss) on cash	-	-
Change in unrealized foreign exchange gain (loss) on cash	119	(27)
Other income	-	-
<b>Total other income</b>	<b>119</b>	<b>(27)</b>
<b>Total income</b>	<b>10,173</b>	<b>71,876</b>
<b>Expenses</b>		
Management fees (Note 5)	-	-
Operating fees	-	-
Fund administration expense	-	-
Audit fees	27,290	27,291
Legal fees	4,470	10,806
Trustee fees	2,236	5,405
Transfer agent fees	7,911	7,911
Custodial and administrative fees	14,527	14,528
Independent review committee fees	-	-
Unitholders reporting costs	-	-
Commissions and other portfolio transaction costs	-	-
Professional fees	-	-
Regulatory fees	32,422	32,423
Other expenses	-	35
Interest expense	-	-
Withholding taxes	-	-
<b>Total expenses</b>	<b>88,856</b>	<b>98,399</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>(78,683)</b>	<b>(26,523)</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit:</b>		
Class A	-	-
<b>Weighted average number of units:</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

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

	2018	2017
<b>Class A</b>		
<b>Net assets attributable to holders of redeemable units at the beginning of year</b>	26,681,504	26,708,027
Increase (decrease) in net assets attributable to holders of redeemable units	(78,683)	(26,523)
<b>Distributions to holders of redeemable units</b>		
From net investment income	-	-
From net realized gains	-	-
Return of capital	-	-
<b>Total distributions to holders of redeemable units</b>	-	-
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	-	-
Reinvestment of distributions to holders of redeemable units	-	-
Redemption of redeemable units	-	-
<b>Net increase (decrease) from redeemable unit transactions</b>	-	-
<b>Net increase (decrease) in net assets attributable to holders of redeemable units</b>	(78,683)	(26,523)
<b>Net assets attributable to holders of redeemable units at the end of year</b>	26,602,821	26,681,504

*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 \$)

	2018	2017
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	(78,683)	(26,523)
Adjustments for:		
Net realized (gain) loss on sale of investments and derivatives	-	(67,162)
Change in unrealized (appreciation) depreciation in value of investments and derivatives	-	-
Change in unrealized foreign exchange (gain) loss on cash	(119)	27
Proceeds from sale and maturity of investments and derivatives	4,318,839	1,790,050
Purchase of investments and derivatives	(4,568,630)	(1,722,888)
(Increase) decrease in interest receivable	-	-
(Increase) decrease in dividends receivable	-	-
(Increase) decrease in other assets	(33,170)	702
Increase (decrease) in other accrued expenses	8,711	23,549
<b>Net cash from (used in) operating activities</b>	<b>(353,052)</b>	<b>(2,245)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from issuance of redeemable units	-	-
Amounts paid on redemption of redeemable units	-	-
Distributions paid to holders of redeemable units, net of reinvested distributions	-	-
<b>Net cash from (used in) financing activities</b>	<b>-</b>	<b>-</b>
Change in unrealized foreign exchange gain (loss) on cash	119	(27)
Net increase (decrease) in cash	(353,052)	(2,245)
Cash (bank overdraft), beginning of year	382,095	384,367
<b>Cash (bank overdraft), end of year</b>	<b>29,162</b>	<b>382,095</b>
<b>Supplementary Information:</b>		
Dividends received, net of withholding tax*	-	-
Interest received, net of withholding tax*	7,898	4,741
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, 2018

No. of Shares/ Par Value	Description	Average Cost (\$)	Fair Value (\$)
<b>CANADIAN BONDS</b>			
<b>Canadian Corporate Bonds (99.02%)</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
		<b>27,517,785</b>	<b>26,341,537</b>
	<b>Total Canadian Bonds (99.02%)</b>	<b>27,517,785</b>	<b>26,341,537</b>
<b>CANADIAN EQUITIES</b>			
<b>Canadian Equities (0.00%)</b>			
6,878,247	Cline Mining Corp., Convertible	1,768,969	-
		<b>1,768,969</b>	<b>-</b>
	<b>Total Canadian Equities (0.00%)</b>	<b>1,768,969</b>	<b>-</b>
<b>SHORT-TERM INVESTMENTS</b>			
<b>Short-Term Investments (0.94%)</b>			
250,000	Royal Bank of Canada Bankers' Acceptance, 2.180%, 2019/01/15	249,628	249,791
		<b>249,628</b>	<b>249,791</b>
	<b>Total Short-Term Investments (0.94%)</b>	<b>249,628</b>	<b>249,791</b>
	Less: Commissions and other portfolio transaction costs	-	-
	<b>Total Investments (99.96%)</b>	<b>29,536,382</b>	26,591,328
	<b>Other Assets, Less Liabilities (0.04%)</b>		11,493
	<b>Net Assets Attributable to Holders of Redeemable Units (100.00%)</b>		<b>26,602,821</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

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

	2018	2017
<b>Class A</b>		
<b>Number of redeemable units at the beginning of year</b>	36,729,002	36,729,002
Redeemable units issued for cash	-	-
Redeemable units issued for reinvested distributions	-	-
Redeemable units redeemed	-	-
<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 \$)

	2018
<b>Net capital loss carried forward:</b>	-
<b>Non-capital losses expiring:</b>	
2028	-
2029	-
2030	-
2031	-
2032	2,319,000
2033	1,030,508
2034	-
2035	-
2036	74,299
2037	60,076
2038	79,881
<b>Total Non-capital losses</b>	<b>3,563,764</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, 2018, refer to the Schedule of Investment Portfolio.

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

as at December 31, 2017

	<b>% of Net Assets Attributable to Holders of Redeemable Units</b>
Canadian Corporate Bonds	98.73
<b>Total Bonds</b>	<b>98.73</b>
Canadian Equities	-
<b>Total Equities</b>	<b>-</b>
<b>Total Investments</b>	<b>98.73</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, 2018

<b>Credit Rating<sup>^</sup></b>	<b>% of Net Assets Attributable to Holders of Redeemable Units</b>		
	<b>Long</b>	<b>Short</b>	<b>Net</b>
AA	0.94	-	0.94
Unrated	99.02	-	99.02
<b>Total</b>	<b>99.96</b>	<b>-</b>	<b>99.96</b>

as at December 31, 2017

<b>Credit Rating<sup>^</sup></b>	<b>% of Net Assets Attributable to Holders of Redeemable Units</b>		
	<b>Long</b>	<b>Short</b>	<b>Net</b>
Unrated	98.73	-	98.73
<b>Total</b>	<b>98.73</b>	<b>-</b>	<b>98.73</b>

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

#### Other Price Risk

As at December 31, 2018 and 2017, the other price risk of the Fund was insignificant as the Fund was invested in fixed income securities.

#### Currency Risk

As at December 31, 2018 and 2017, the Fund had no significant exposure to currency risk as the Fund's investments were primarily denominated in Canadian dollars, the functional currency of the Fund.

# 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, 2018

<b>Bonds</b>	<b>Long (in \$)</b>	<b>Short (in \$)</b>	<b>Net (in \$)</b>
< 1 year	249,791	-	249,791
1-3 years	-	-	-
3-5 years	26,341,537	-	26,341,537
> 5 years	-	-	-
<b>Total</b>	<b>26,591,328</b>	<b>-</b>	<b>26,591,328</b>

as at December 31, 2017

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

As at December 31, 2018, had the prevailing interest rates increased or decreased by 1% (December 31, 2017 - 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 \$65,058 (December 31, 2017 - \$64,952). 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, 2018

	<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
Short-term investments	-	249,791	-	249,791
Equities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>249,791</b>	<b>26,341,537</b>	<b>26,591,328</b>

as at December 31, 2017

	<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>

There were no transfers between Level 1, 2 and 3 during the years ended December 31, 2018 and 2017.

# 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, 2018

	Balance at Dec. 31, 2017 (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, 2018 (in \$)
Bonds	26,341,537	-	-	-	-	-	-	26,341,537
Equities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>26,341,537</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,341,537</b>

for the year ended December 31, 2017

	Balance at Dec. 31, 2016 (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, 2017 (in \$)
Bonds	26,341,537	-	(67,161)	-	-	67,161	-	26,341,537
Equities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>26,341,537</b>	<b>-</b>	<b>(67,161)</b>	<b>-</b>	<b>-</b>	<b>67,161</b>	<b>-</b>	<b>26,341,537</b>

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, 2018

Description	Fair Value (in \$)	Valuation Technique	Unobservable Inputs	Value of Unobservable Inputs	Change in Valuation + (in \$)	Change in Valuation - (in \$)
Cline Mining Corp., Floating Rate, 2022/07/08	24,189,708	Discounted cash flow	Discount rate	12%	3,998,669	(9,177,659)
Cline Mining Corp., Floating Rate, 2022/07/08	2,151,829	Discounted cash flow	Discount rate	12%	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, 2017

Description	Fair Value (in \$)	Valuation Technique	Unobservable Inputs	Value of 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	12%	3,998,669	(9,177,659)
Cline Mining Corp., Floating Rate, 2022/07/08	2,151,829	Discounted cash flow	Discount rate	12%	355,707	(816,411)
<b>Total</b>	<b>26,341,537</b>				<b>4,354,376</b>	<b>(9,994,070)</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.

On June 13, 2016, the Manager of the Fund announced that the Fund applied to voluntarily delist its Class A units from the TSX. The Class A units were delisted from the TSX at the close of trading on June 24, 2016.

On June 27, 2016, the Class A Units commenced trading on the Canadian Securities Exchange ("CSE").

The address of the Fund's registered office is 2 Queen Street East, Twelfth Floor, Toronto, Ontario, M5C 3G7. These financial statements are authorized for issue by the Manager on March 13, 2019.

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 primarily 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.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Effective January 1, 2018, the Fund retrospectively without restatement adopted IFRS 9, *Financial Instruments* ("IFRS 9"). The new standard requires financial assets to be either carried at amortized cost or at fair value with changes in fair value recognized in profit and loss ("FVTPL") or in other comprehensive income ("FVOCI") based on the Fund's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

The Fund manages its investments in financial assets with the objective of realizing cash flows through both the sale of the assets and income generated from those assets. The Portfolio Manager makes decisions based on the assets' fair values and manage the assets to realize those fair values.

# Marret High Yield Strategies Fund

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

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Upon transition to IFRS 9, the Fund's financial assets and financial liabilities previously designated as FVTPL or classified as held for trading under IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") continue to be classified as FVTPL under IFRS 9. There were no changes in the measurement attributes for any of the Fund's financial assets and financial liabilities upon transition to IFRS 9.

In accordance with IFRS 10: *Consolidated Financial Statements*, the Manager has determined that the Fund meets the definition of an Investment Entity which requires that the Fund obtains funds from one or more investors for the purpose of providing investment management services, commit to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and measure and evaluate the performance of its investments on a fair value basis. Consequently, the Fund does not consolidate its investment in subsidiaries, if any, but instead measure these at FVTPL, as required by the accounting standard.

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

The Fund classifies and measures its investments (such as fixed-income securities, equity securities, investment funds, exchange-traded funds and derivatives) based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and use that information to assess the assets' performance and to make decisions. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments and derivatives are measured at FVTPL. Short sales are held for trading and are consequently classified as financial liabilities at FVTPL. Derivative contracts that have a negative fair value are presented as liabilities at 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) Cash**

Cash consists of demand deposits with financial institutions.

### **d) 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.



# Marret High Yield Strategies Fund

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

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### **e) 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.

### **f) Functional currency**

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

### **g) 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 investments and derivatives” and “Change in appreciation (depreciation) in value of investments and derivatives” in the Statements of Comprehensive Income.

### **h) 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 (“NAVPU”) 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, 2018 and 2017 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.

### **i) 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 has a fixed termination date.

### **j) 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.

### **k) 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.

### **l) 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.

### **m) 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.

# Marret High Yield Strategies Fund

Notes to the Financial Statements (cont'd)

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## 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.

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.

## 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 was 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, 2018, the fair value of the Fund's net assets based on the CSE closing market price was \$1,836,450 (December 31, 2017 - \$5,142,060 based on the CSE closing market price).

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

## 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. After May 30, 2014, the Fund no longer pays management fees.

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

# Marret High Yield Strategies Fund

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

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### 6. INCOME TAXES

The Fund qualifies as a mutual fund trust under the *Income Tax Act* (Canada). The Fund's net income for tax purposes and net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset. Income tax on net realized capital gains not paid or payable will generally be recoverable by virtue of refunding provisions contained in the *Income Tax Act* (Canada) and provincial income tax legislation, as redemptions occur. Occasionally, the Fund may distribute more than it earns. This excess distribution is a return of capital and is not taxable to unitholders.

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, 2018 was A+ (December 31, 2017 - 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 99.02% of the Fund's net assets attributable to holders of redeemable units at December 31, 2018 (December 31, 2017 - 98.73%).

#### **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.

#### *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.

# Marret High Yield Strategies Fund

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

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### *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**, 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**, or at **www.sedar.com**.



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