

# Semi-Annual Financial Statements - June 30, 2020



## Marret High Yield Strategies Fund

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## MARRET HIGH YIELD STRATEGIES FUND

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Marret Asset Management Inc., the Manager of the Fund, appoints independent auditors to audit the Fund's Annual Financial Statements. Under Canadian securities laws (National Instrument 81-106), if an auditor has not reviewed the Semi-Annual Financial Statements, this must be disclosed in an accompanying notice.

The Fund's independent auditors have not performed a review of these Semi-Annual Financial Statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

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# Marret High Yield Strategies Fund

Financial Statements (unaudited)

## Statements of Financial Position

(in \$ except for per unit amounts and units outstanding)

	as at Jun. 30, 2020	as at Dec. 31, 2019
<b>Assets</b>		
<b>Current assets</b>		
Investments	16,882,308	16,882,300
Cash	70,654	71,787
Receivable for investments sold	-	-
Receivable for unit subscriptions	-	-
Interest receivable	-	-
Dividends receivable	-	-
Other assets	2,982	-
Derivative assets	-	-
	16,955,944	16,954,087
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank overdraft	-	-
Payable for investments purchased	-	-
Payable for unit redemptions	-	-
Management fees payable	-	-
Other accrued expenses	88,590	70,873
Distributions payable to holders of redeemable units	-	-
Derivative liabilities	-	-
	88,590	70,873
<b>Net assets attributable to holders of redeemable units</b>	<b>16,867,354</b>	<b>16,883,214</b>
<b>Net assets attributable to holders of redeemable units per unit:</b>		
Class A	0.46	0.46
<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 (unaudited)

## Statements of Comprehensive Income

for the periods ended June 30 (in \$ except for per unit amounts and number of units)

	2020	2019
<b>Income</b>		
Net gain (loss) on investments and derivatives		
Dividends	-	-
Interest for distribution purposes	3,516	4,608
Net realized gain (loss) on sale of investments and derivatives	-	-
Net realized foreign exchange gain (loss) on investments and derivatives	-	19
Change in unrealized appreciation (depreciation) in value of investments and derivatives	-	-
<b>Total net gain (loss) on investments and derivatives</b>	<b>3,516</b>	<b>4,627</b>
Other income		
Net realized foreign exchange gain (loss) on cash	-	-
Change in unrealized foreign exchange gain (loss) on cash	126	(114)
Other income	-	163
<b>Total other income</b>	<b>126</b>	<b>49</b>
<b>Total income</b>	<b>3,642</b>	<b>4,676</b>
<b>Expenses</b>		
Management fees (Note 5)	-	-
Operating fees	-	-
Fund administration expense	-	-
Audit fees	14,189	14,111
Legal fees	-	-
Trustee fees	-	-
Transfer agent fees	4,113	4,091
Custodial and administrative fees	1,200	4,335
Independent review committee fees	-	-
Unitholders reporting costs	-	-
Commissions and other portfolio transaction costs	-	-
Professional fees	-	-
Regulatory fees	-	11,115
Other expenses	-	-
Interest expense	-	-
Withholding taxes	-	-
<b>Total expenses</b>	<b>19,502</b>	<b>33,652</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>(15,860)</b>	<b>(28,976)</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 (unaudited)

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units  
for the periods ended June 30 (in \$)

	2020	2019
<b>Class A</b>		
<b>Net assets attributable to holders of redeemable units at the beginning of period</b>	16,883,214	26,602,821
Increase (decrease) in net assets attributable to holders of redeemable units	(15,860)	(28,976)
<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>	(15,860)	(28,976)
<b>Net assets attributable to holders of redeemable units at the end of period</b>	16,867,354	26,573,845

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

# Marret High Yield Strategies Fund

Financial Statements (unaudited)

## Statements of Cash Flows for the periods ended June 30 (in \$)

	2020	2019
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	(15,860)	(28,976)
Adjustments for:		
Net realized (gain) loss on sale of investments and derivatives	-	-
Change in unrealized (appreciation) depreciation in value of investments and derivatives	-	-
Change in unrealized foreign exchange gain (loss) on cash	(126)	114
Proceeds from sale and maturity of investments and derivatives	649,243	1,198,144
Purchase of investments and derivatives	(649,251)	(1,198,049)
(Increase) decrease in interest receivable	-	-
(Increase) decrease in dividends receivable	-	-
(Increase) decrease in other assets	(2,982)	61,966
Increase (decrease) in other accrued expenses	17,717	(35,433)
<b>Net cash from (used in) operating activities</b>	<b>(1,259)</b>	<b>(2,234)</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	126	(114)
Net increase (decrease) in cash	(1,259)	(2,234)
Cash (bank overdraft), beginning of period	71,787	29,162
<b>Cash (bank overdraft), end of period</b>	<b>70,654</b>	<b>26,814</b>
<b>Supplementary Information:</b>		
Dividends received, net of withholding tax*	-	-
Interest received, net of withholding tax*	3,516	4,608
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 June 30, 2020 (unaudited)

No. of Shares/ Par Value	Description	Average Cost (\$)	Fair Value (\$)
<b>CANADIAN BONDS</b>			
<b>Canadian Corporate Bonds (98.90%)</b>			
25,269,869	Cline Mining Corp., Floating Rate, 2022/07/08	25,269,869	15,319,605
2,247,916	Cline Mining Corp., Floating Rate, 2022/07/08	2,247,916	1,362,777
		<b>27,517,785</b>	<b>16,682,382</b>
	<b>Total Canadian Bonds (98.90%)</b>	<b>27,517,785</b>	<b>16,682,382</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 (1.19%)</b>			
200,000	Royal Bank of Canada Bankers' Acceptance, 0.280%, 2020/08/18	199,918	199,926
		<b>199,918</b>	<b>199,926</b>
	<b>Total Short-Term Investments (1.19%)</b>	<b>199,918</b>	<b>199,926</b>
	Less: Commissions and other portfolio transaction costs	-	-
	<b>Total Investments (100.09%)</b>	<b>29,486,672</b>	16,882,308
	<b>Other Assets, Less Liabilities (-0.09%)</b>		(14,954)
	<b>Net Assets Attributable to Holders of Redeemable Units (100.00%)</b>		<b>16,867,354</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 (unaudited)*

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Redeemable Unit Transactions (Note 4)  
for the periods ended June 30

	<b>2020</b>	<b>2019</b>
<b>Class A</b>		
<b>Number of redeemable units at the beginning of period</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 period</b>	<b>36,729,002</b>	<b>36,729,002</b>

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

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# Marret High Yield Strategies Fund

Fund Specific Notes to Financial Statements (unaudited)

## Financial Instruments Risks (Note 7)

### Concentration Risk

For Concentration Risk as at June 30, 2020, refer to the Schedule of Investment Portfolio.

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

as at December 31, 2019

	% of Net Assets Attributable to Holders of Redeemable Units
Canadian Corporate Bonds	98.81
<b>Total Bonds</b>	<b>98.81</b>
Canadian Equities	-
<b>Total Equities</b>	<b>-</b>
Short-Term Investments	1.18
<b>Total Investments</b>	<b>99.99</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 June 30, 2020

Credit Rating <sup>^</sup>	% of Net Assets Attributable to Holders of Redeemable Units		
	Long	Short	Net
AA	1.19	-	1.19
Unrated	98.90	-	98.90
<b>Total</b>	<b>100.09</b>	<b>-</b>	<b>100.09</b>

as at December 31, 2019

Credit Rating <sup>^</sup>	% of Net Assets Attributable to Holders of Redeemable Units		
	Long	Short	Net
AA	1.18	-	1.18
Unrated	98.81	-	98.81
<b>Total</b>	<b>99.99</b>	<b>-</b>	<b>99.99</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 June 30, 2020 and December 31, 2019, the other price risk of the Fund was insignificant as the Fund was invested in fixed income securities.

### Currency Risk

As at June 30, 2020 and December 31, 2019, 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.

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

# Marret High Yield Strategies Fund

## Fund Specific Notes to Financial Statements (unaudited)

### Interest Rate Risk

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

as at June 30, 2020

<b>Bonds</b>	<b>Long (in \$)</b>	<b>Short (in \$)</b>	<b>Net (in \$)</b>
< 1 year	199,926	-	199,926
1-3 years	16,682,382	-	16,682,382
3-5 years	-	-	-
> 5 years	-	-	-
<b>Total</b>	<b>16,882,308</b>	<b>-</b>	<b>16,882,308</b>

as at December 31, 2019

<b>Bonds</b>	<b>Long (in \$)</b>	<b>Short (in \$)</b>	<b>Net (in \$)</b>
< 1 year	199,918	-	199,918
1-3 years	16,682,382	-	16,682,382
3-5 years	-	-	-
> 5 years	-	-	-
<b>Total</b>	<b>16,882,300</b>	<b>-</b>	<b>16,882,300</b>

As at June 30, 2020, had the prevailing interest rates increased or decreased by 1% (December 31, 2019 - 1%), with all other variables held constant, net assets attributable to holders of redeemable units of the Fund would have decreased or increased, respectively, by approximately \$41,975 (December 31, 2019 - \$41,645). 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 June 30, 2020

	<b>Level 1 (in \$)</b>	<b>Level 2 (in \$)</b>	<b>Level 3 (in \$)</b>	<b>Total (in \$)</b>
Bonds	-	-	16,682,382	16,682,382
Short-term investments	-	199,926	-	199,926
Equities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>199,926</b>	<b>16,682,382</b>	<b>16,882,308</b>

as at December 31, 2019

	<b>Level 1 (in \$)</b>	<b>Level 2 (in \$)</b>	<b>Level 3 (in \$)</b>	<b>Total (in \$)</b>
Bonds	-	-	16,682,382	16,682,382
Short-term investments	-	199,918	-	199,918
Equities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>199,918</b>	<b>16,682,382</b>	<b>16,882,300</b>

There were no transfers between Level 1, 2 and 3 during the period ended June 30, 2020 and the year ended December 31, 2019.

# Marret High Yield Strategies Fund

## Fund Specific Notes to Financial Statements (unaudited)

### Level 3 Reconciliation

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

for the period ended June 30, 2020

	Balance at Dec. 31, 2019 (in \$)	Purchases (in \$)	Sales (in \$)	Transfers In (in \$)	Transfers (Out) (in \$)	Realized Gain (Loss) (in \$)	Change in Unrealized Appreciation (Depreciation) (in \$)	Balance at Jun. 30, 2020 (in \$)
Bonds	16,682,382	-	-	-	-	-	-	16,682,382
Equities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>16,682,382</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,682,382</b>

for the year ended December 31, 2019

	Balance at Dec. 31, 2018 (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, 2019 (in \$)
Bonds	26,341,537	-	-	-	-	-	(9,659,155)	16,682,382
Equities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>26,341,537</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,659,155)</b>	<b>16,682,382</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 period ended June 30, 2020

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	15,319,605	Discounted Cash Flow	Discount rate	12%	2,532,400	5,812,311
Cline Mining Corp., Floating Rate, 2022/07/08	1,362,777	Discounted Cash Flow	Discount rate	12%	225,273	517,043
<b>Total</b>	<b>16,682,382</b>				<b>2,757,673</b>	<b>6,329,354</b>

for the year ended December 31, 2019

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	15,319,605	Discounted cash flow	Discount rate	12%	2,532,400	5,812,311
Cline Mining Corp., Floating Rate, 2022/07/08	1,362,777	Discounted cash flow	Discount rate	12%	225,273	517,043
<b>Total</b>	<b>16,682,382</b>				<b>2,757,673</b>	<b>6,329,354</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 (unaudited)

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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.

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.

In December 2013, CI Financial Corp. completed its acquisition of 65% of the issued and outstanding common shares of the Manager. 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 were authorized for issue by the Manager on August 24, 2020.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with *International Financial Reporting Standards* as issued by the International Accounting Standards Board ("IFRS").

#### **Coronavirus 19 (COVID-19) Impact**

Since the outbreak of COVID-19, emergency measures taken in response to the spread of COVID-19 have resulted in significant disruption to business operations globally, resulting in an economic slowdown. Global equity and capital markets have also experienced significant volatility and weakness. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. These developments are constantly evolving and the duration and impact of the COVID-19 pandemic is highly uncertain and cannot be predicted at this time but could have a material impact on the future performance of the Fund. In the face of the current environment of heightened uncertainty and market volatility, the Manager continues to closely monitor its impact on the Fund's risk exposures from the portfolio holdings.

The following is a summary of the significant accounting policies of the Fund:

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

The Fund classifies and measures its investments (such as fixed-income securities, equity securities, investment fund(s), exchange-traded fund(s) and derivatives) based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial

# Marret High Yield Strategies Fund

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

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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 fair value through profit and loss ("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 received 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.

### **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.

# Marret High Yield Strategies Fund

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

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## **h) Unit valuation**

The total net asset value ("NAV") is calculated by subtracting the aggregate amount of the liabilities from the total assets attributable to each class of units. Net asset value per unit ("NAVPU") is calculated at the close of business on every valuation date as the net asset value attributable to each class of units divided by its outstanding units.

A valuation date is any day except Saturday, Sunday, a statutory holiday in Toronto, Ontario, or any other day on which the CSE is not open for trading.

As at June 30, 2020, December 31, 2019 and June 30, 2019, 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 period.

## **l) 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.

### 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 period. 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 based on 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 were independently assessed by the Manager based on assumptions and estimates on parameters available when the financial statements were prepared. 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. Since the outbreak of COVID-19, market volatility has increased significantly which results in fluctuation in quoted securities prices, widening of bid ask spreads and reduced liquidity in the market. These changes may also impact the observability of some of the model valuation inputs used, which may have an implication on classification of certain financial instruments within the fair value hierarchy. Areas such as credit risk (both own and counterparty); volatilities, correlations and key assumptions concerning future developments 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 (unaudited) (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.

### **IFRS 10**

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.

## 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 June 30, 2020, the fair value of the Fund's net assets based on the CSE closing market price was \$2,203,740 (December 31, 2019 - \$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.

Due to the illiquid nature of the remaining investments within the Fund, the Manager agree to pay all necessary expenses of the Fund until the Fund is able to liquidate its respective positions in Cline, at which time the Fund will reimburse the Manager the accrued payable.

## 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 year 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.

## 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.

# Marret High Yield Strategies Fund

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

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## **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 June 30, 2020 was A+ (December 31, 2019 - 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 Corp. bond positions owned by the Fund are considered illiquid and represent 98.90% of the Fund's net assets attributable to holders of redeemable units at June 30, 2020 (December 31, 2019 - 98.81%).

## **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.

### *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.



# Marret High Yield Strategies Fund

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

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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.

### 8. CLINE MINING CORP.

On January 21, 2020, Cline Mining Corp. entered into a binding agreement (Agreement) for the sale by Cline to Allegiance Coal Limited (Allegiance) of all the shares in New Elk Coal Company, LLC (NECC). The Agreement reflected the term sheet originally signed by Cline and Allegiance on July 15, 2019 (the "LOI").

The purchase price for the shares in NECC was US\$1, plus the assumption of certain obligations owed by NECC to Cline, equal to the balance owed on the Cline senior secured indebtedness of C\$55 million ("Debt"), which represents a total acquisition cost of C\$55,000,001.31.

As originally contemplated, the completion of the purchase was to take place before July 15, 2020 ("Closing").

Under the Agreement the Debt was to be repaid by NECC to Cline as follows:

- US\$3 million in cash on Closing;
- US\$3 million in Allegiance shares issued on Closing, subject to a voluntary 12-month hold period;
- US\$5 million on Closing to replace the Colorado State Mine reclamation bond;
- the remainder of the Debt to be repaid by Cline receiving 60% of NECC's retained earnings after NECC makes prudent provision for any preferred debt payments and obligations, and maintenance and working capital, until the Debt is paid in full, but in any event within 10 years of Closing. The Debt will not bear interest; and
- the Debt will be reduced by the amount of Mine care and maintenance costs funded by Allegiance until Closing. Such costs are fixed at US\$150,000 per month, with funding having begun on September 1, 2019.

The Debt will be evidenced by NECC issuing a promissory note, secured against the assets of NECC and subject only to indebtedness and security granted in respect of the preferred debt issued by NECC to a maximum of US\$40 million.

On June 5, 2020, Cline announced an amendment (Amendment) to the Agreement which provides as follows:

- Allegiance will acquire NECC with a US\$5 million reduction in upfront cash payments (from US\$8 million to US\$3 million), in exchange for US\$6 million (which includes an acceleration of US\$1 million of Debt repayment) to be paid upon the commencement of commercial production at the mine or by September 1, 2021, whichever is earlier;
- If commercial production of coal does not occur by March 31, 2021, Allegiance must issue US\$1 million of Allegiance shares to Cline, subject to the receipt of prior shareholder approval. If the requisite shareholder approval is not obtained by March 31, 2021, this payment must be made in cash. The US\$1 million (whether paid in shares or cash) will be applied towards the balance of Debt;
- Closing is estimated to take place before the end of July 2020;
- Other terms remain the same.

As a result of the Amendment, the full Debt repayment will be as follows:

- US\$3 million in cash on Closing;
- US\$3 million in Allegiance shares issued on Closing, at a deemed issue price equal to the higher of \$0.08 per share or the 20-day volume weighted average price and subject to a voluntary 12-month hold period;
- US\$6 million upon the commencement of commercial production or by September 1, 2021, whichever is earlier;
- if commercial production of coal does not occur by March 31, 2021, Allegiance must issue US\$1 million of Allegiance shares to Cline, subject to the receipt of prior shareholder approval. If the requisite shareholder approval is not obtained by March 31, 2021, this payment must be made in cash;

# Marret High Yield Strategies Fund

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

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- the remainder of the Debt to be repaid by Cline receiving 60% of NECC's retained earnings after NECC makes prudent provision for any preferred debt payments and obligations, and sustaining and working capital, until the Debt is paid in full, but in any event within 10 years of Completion. The Debt will not bear interest; and
- the Debt will be reduced by the amount of Mine care and maintenance costs which Allegiance has agreed to fund until Closing. Such costs are fixed at US\$150,000 per month.

The transaction is subject to normal conditions for similar transactions and to Allegiance replacing the existing US\$5 million reclamation bond in place for NECC with the State of Colorado.

# 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 on the Marret Asset Management Inc. website at **www.marret.com**, or at **www.sedar.com**.



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