Financial Statements of

MALACHITE AGGRESSIVE PREFERRED FUND

Year ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Malachite Aggressive Preferred Fund

We have audited the accompanying financial statements of Malachite Aggressive Preferred Fund, which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Malachite Aggressive Preferred Fund as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 23, 2017
Vaughan, Canada

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Investments, at fair value (Schedule)	$ 5,696,962	$ 5,474,714
Cash	273,200	84,671
Due from brokers	25,529	39,562
Accrued income receivable	23,770	3,927
	6,019,461	5,602,874
Liabilities		
Accrued liabilities (note 4)	162,057	60,246
Due to brokers	121,282	66,132
	283,339	126,378
Net assets attributable to holders of redeemable units	$ 5,736,122	$ 5,476,496
Redeemable units issued and outstanding	668,200.8778	672,958.5440
Net asset value attributable to holders of redeemable units per unit	$ 8.5844	$ 8.1379

See accompanying notes to financial statements.

On behalf of the Trustee:

Hymas Investment Management Inc.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Comprehensive Income

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Investment income:		
Dividends	$ 299,455	$ 350,187
Net realized losses on investments	(257,379)	(559,526)
Net change in unrealized appreciation (depreciation) on investments	556,341	(1,145,387)
	598,417	(1,354,726)
Expenses:		
Legal and audit	16,303	19,157
Interest	2,689	6,826
Transaction costs	3,096	5,870
Other	435	17
	22,523	31,870
Amounts that would otherwise have been payable by the investment fund that were paid or absorbed by the Investment Manager	(487)	(4,461)
	22,036	27,409
Increase (decrease) in net assets attributable to holders of redeemable units	$ 576,381	$ (1,382,135)
Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit (based on weighted average number of units outstanding during the year)	$ 0.8598	$ (2.3387)

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Net assets attributable to holders of redeemable units, beginning of year	$ 5,476,496	$ 7,220,853
Increase (decrease) in net assets attributable to holders of redeemable units from operations	576,381	(1,382,135)
Capital transactions:		
Proceeds from issue of units	268,713	1,358,241
Reinvested distributions	208,401	239,368
Units redeemed	(513,355)	(1,631,184)
	(36,241)	(33,575)
Distributions to unitholders:		
Net investment income	(280,514)	(328,647)
Net assets attributable to holders of redeemable units, end of year	$ 5,736,122	$ 5,476,496

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units	$ 576,381	$ (1,382,135)
Cost of investments purchased	(3,787,364)	(10,280,539)
Proceeds on sale of investments	3,864,078	10,400,131
Adjustments for non-cash items:		
Net realized losses on investments	257,379	559,526
Net change in unrealized depreciation (appreciation) on investments	(556,341)	1,145,387
Change in non-cash balances related to operations:		
Due from brokers	14,033	(39,562)
Subscriptions receivable	–	111
Accrued income receivable	(19,843)	(228)
Accrued liabilities	101,811	4,109
Due to brokers	55,150	(50,170)
	505,284	356,630
Financing activities:		
Amounts paid on redemption of redeemable units	(513,355)	(1,631,184)
Proceeds from issuance of redeemable units	268,713	1,358,241
Distributions to unitholders of redeemable units	(72,113)	(89,279)
	(316,755)	(362,222)
Increase (decrease) in cash	188,529	(5,592)
Cash, beginning of year	84,671	90,263
Cash, end of year	$ 273,200	$ 84,671

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Schedule of Investments

December 31, 2016

Number of shares	Security	Book value	Fair value	Weight in portfolio
4,400	AIMIA INC. 4.5% CUM RT RST PREF SHARES SERIES 1	$ 79,319	$ 56,100	1.0%
2,700	ATLANTIC POWER PREFERRED EQUITY LTD. CUM FLOATING RT PFD SHARES SERIES 3	32,891	38,475	0.7%
6,200	BROOKFIELD ASSET MANAGEMENT INC. 4.85% CUM CL A PREF S36	132,725	133,300	2.3%
1,200	BROOKFIELD ASSET MGMT INC. 4.9% CUM CL-A PERP PFD S37	25,732	26,256	0.5%
4,900	BCE 2.80% CUM RED 1ST PFD AG FXD	66,172	69,580	1.2%
14,900	BROOKFIELD INFRASTRUCTURE PARTNERS LP 4.5% CUM RT RST CLA PFD LP S1 (14900 SEG)	288,242	317,370	5.6%
1,300	BROOKFIELD RENEWABLE POWER 5% PFD EQUITY INC CUM CL A S6	25,844	26,325	0.5%
8,000	BANK OF MONTREAL 3.90% NON CUM 5YR RT RST CL B PFD SER 25	160,763	165,920	2.9%
4,800	BANK OF NOVA SCOTIA 2.063% NON-CUM 5YR RST PFD S32	98,495	100,320	1.8%
4,200	CANACCORD GENUITY GROUP INC. 5.75% CUM 5YR RT RST 1ST SER-C PFD SHS	83,391	64,680	1.1%
1,800	CAPITAL PWR CORP. 4.50% CUM RT RST PFD SER 5	26,892	32,832	0.6%
1,400	CANADIAN UTILS LTD. 4% 5YR RT RST CUM RED 2ND S-Y PREFERRED SHS	26,622	29,204	0.5%
3,400	CANADIAN UTILITIES LTD. 4.5% CUM RDM SECND PRF SR CC	71,494	72,726	1.3%
22,000	CANADIAN UTILITIES LIMITED 4.5% CUM RED 2ND PRF SER-DD	458,524	469,260	8.2%
1,800	ENBRIDGE INC. CUM RED PFD SHS SERR	36,257	32,040	0.6%

MALACHITE AGGRESSIVE PREFERRED FUND

Schedule of Investments (continued)

December 31, 2016

Number of shares	Security	Book value	Fair value	Weight in portfolio
35,100	GREAT-WEST LIFECO INC. 3.65% NON-CUM 5YR RT RESET 1ST PFD SER N	751,645	494,910	8.7%
5,400	HUSKY ENERGY INC. CUM RT RST RED 1ST PF S-1	89,184	72,360	1.3%
23,000	HUSKY ENERGY INC. CUM RATE RESET PFD SHS SER 3	431,931	499,790	8.8%
24,100	INDUSTRIAL ALLNCE INS & FIN SVC 4.3% NON-CUM RT RST PF S-G (19133 SEG)	478,203	537,430	9.4%
30,800	INTACT FINANCIAL CORP. 4.2 % NON-CUM RT RST CL-A PF S1	673,320	529,144	9.3%
3,900	INTACT FINANCIAL CORP. 3.332% NON-CUM RT RST CL-A PF S3	70,334	81,900	1.4%
2,600	INNERGEX RENEWABLE ENERGY INC. CUM RT RESET PREFD SHS SER A	41,043	40,170	0.7%
36,800	MANULIFE FINANCIAL CORP. 4.20% NON CUM RT RESET PFD S3	774,301	525,872	9.2%
2,800	MANULIFE FINANCIAL CORP. 3.80% NON-CUM RT RST PFD S13	52,902	54,236	1.0%
20,300	SUN LIFE FINANCIAL INC. 2.275% NON-CUM RT RST PFD SR 8R	438,154	314,650	5.5%
35,200	SUN LIFE FINANCIAL INC. CLASS A NON CUM FLTG RATE PFD SHARES SERIES 9QR	469,439	504,064	8.8%
4,200	TRANSALTA CORPORATION 2.709% CUM RT RST 1 ST PFD SR-A	40,657	50,610	0.9%
1,500	TRANSALTA CORPORATION 4.60% CUM RT RST 1 ST PFD SER-C	18,519	25,050	0.4%
11,800	TRANSCANADA CORPORATION 4.00% CUM RED 1ST PFD SHS SR 7	211,180	221,132	3.9%
4,600	VERESEN INC. 4.4% CUM RED RT RST PFD SER A	65,197	81,926	1.4%
1,400	VERESEN INC. CUMULATIVE RED PFD SHS SER C	23,060	29,330	0.5%
Total investments		$ 6,242,432	$ 5,696,962	100.0%

See accompanying notes to financial statements.

1. The Fund:

Malachite Aggressive Preferred Fund (the "Fund") is an unincorporated open-ended mutual fund trust established under the laws of the Province of Ontario by a Master Declaration of Trust (for the Malachite Funds in general) and an associated Fund Regulation (for the Fund itself) as amended January 13, 2005. The address of the Fund's registered office is c/o 268 Poplar Plains Road, Suite 801, Toronto, ON, M4V 2P2.

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

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

These financial statements were authorized for issue by the Investment Manager on March 23, 2017.

2. Basis of preparation:

(a) Basis of accounting:

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

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

3. Significant accounting policies:

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

(a) Financial instruments:

(i) Recognition, initial measurement and classification:

Financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are initially recognized on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated.

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

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

Financial assets at FVTPL:

- Held for trading: derivative financial instruments; and
- Designated as FVTPL: debt securities and equity investments.

Financial assets at amortized cost:

- Loans and receivables: all other financial assets.

Financial liabilities at FVTPL:

- Held for trading: derivative financial instruments and redeemable units; and
- Financial liabilities at amortized cost: all other financial liabilities.

3. Significant accounting policies (continued):

(ii) Fair value measurement:

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

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

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

(iii) Offsetting:

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

(iv) Derecognition:

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

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

3. **Significant accounting policies (continued):**

(b) Cash:

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

(c) Other assets and liabilities:

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

(d) Redeemable units:

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

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

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

(e) Investment transactions and income recognition:

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

3. Significant accounting policies (continued):

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

(f) Transactions costs:

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

(g) Critical accounting estimates and judgments:

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

(h) Future changes in accounting policies:

IFRS 9, Financial Instruments ("IFRS 9 (2014)"):

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. It also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

3. Significant accounting policies (continued):

Special transitional requirements have been set for the application of the new general hedging model.

The Fund intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

4. Related party balances:

Included in accrued liabilities are distributions payable to unitholders of $14,146 (2015 - $14,019) and amounts due to the Investment Manager of nil (2015 - $27,168).

5. Management fees and expenses:

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

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

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

6. Income taxes:

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

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

As at the most recent taxation year end of December 31, 2016, the Fund had capital losses of approximately $922,905 available to reduce future net realized capital gains.

7. Brokerage commissions:

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

8. Redeemable units:

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

8. Redeemable units (continued):

Unit transactions for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Opening	672,958.5440	683,141.9120
Subscriptions	32,264.7774	147,689.2361
Distributions reinvested	26,394.5455	27,454.8527
Redemptions	(63,416.9891)	(185,327.4568)
Closing	668,200.8778	672,958.5440

9. Financial instruments:

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

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

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

- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

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

Changes in valuation methods may result in transfers into or out of an investment's assigned level. All the Fund's investments were classified as Level 1 as at December 31, 2016 and 2015.

10. Financial instrument risk:

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

(a) Risk management:

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

(b) Market risk:

(i) Market price risk:

Market price risk arises primarily from uncertainties about future market prices of the instruments held. Market price fluctuations may be caused by factors specific to an individual investment, or factors affecting all securities traded in a market or industry sector. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value. If prices on the Toronto Stock Exchange for these securities, as approximated by either the S&P/TSX Preferred Share Index or the BMO Capital Markets "50" index had increased or decreased by 5% as at December 31, 2016, with all other variables held constant, the net assets of the Fund would have increased or decreased, respectively by approximately $285,000 (2015 - $270,000) (approximately 5.0% of total net assets). In practice the actual results may differ from this sensitivity analysis and the difference could be material.

10. Financial instrument risk (continued):

(ii) Interest rate risk:

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

(c) Counterparty credit risk:

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

(d) Liquidity risk:

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

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

(e) Credit risk:

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

11. Capital management:

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

12. Filing exemption:

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