Financial Statements of

MALACHITE AGGRESSIVE PREFERRED FUND

Years ended December 31, 2014 and 2013

KPMG LLP
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

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 statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years ended December 31, 2014 and December 31, 2013, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Malachite Aggressive Preferred Fund, as at December 31, 2014, December 31, 2013, and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 25, 2015
Toronto, Canada

MALACHITE AGGRESSIVE PREFERRED FUND

Statements of Financial Position

December 31, 2014, December 31, 2013 and January 1, 2013

	December 31, 2014	December 31, 2013	January 1, 2013
Assets			
Investments, at fair value	$ 7,299,219	$ 7,042,333	$ 6,795,865
Cash	90,263	341,463	113,174
Due from brokers	–	–	74,559
Subscriptions receivable	111	–	43,000
Accrued income receivable	3,699	2,537	7,800
	7,393,292	7,386,333	7,034,398
Liabilities			
Accrued liabilities (note 4)	56,137	367,424	88,663
Due to brokers	116,302	47,276	79,580
	172,439	414,700	168,243
Net assets attributable to holders of redeemable units	$ 7,220,853	$ 6,971,633	$ 6,866,155
Units issued and outstanding	683,141.9120	706,226.4696	633,955.7154
Net asset value attributable to holders of redeemable units per unit	$ 10.5701	$ 9.8717	$ 10.8307

See accompanying notes to financial statements.

On behalf of the Trustee:

____

Hymas Investment Management Inc.

MALACHITE AGGRESSIVE PREFERRED FUND

Statements of Comprehensive Income

Years ended December 31, 2014 and 2013

	2014	2013
Investment income:		
Dividends	$ 380,230	$ 393,678
Net realized gains (losses) on investments	117,803	(137,033)
Net change in unrealized appreciation (depreciation) on investments	383,893	(567,074)
	881,926	(310,429)
Expenses:		
Legal and audit	9,600	9,600
Interest	2,646	4,043
Other	1,035	405
Transaction costs	5,321	4,640
	18,602	18,688
Amounts that would otherwise have been payable by the investment fund that were paid or absorbed by the Investment Manager	(928)	(133)
	17,674	18,555
Increase (decrease) in net assets attributable to holders of redeemable units	$ 864,252	$ (328,984)
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)	$ 1.2318	$ (0.4591)

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

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

Years ended December 31, 2014 and 2013

	2014	2013
Net assets attributable to holders of redeemable units, beginning of year	$ 6,971,633	$ 6,866,155
Increase (decrease) in net assets attributable to holders of redeemable units from operations	864,252	(328,984)
Capital transactions:		
Proceeds from issue of units	486,000	1,405,000
Reinvested distributions	257,514	258,342
Units redeemed	(990,599)	(849,117)
	(247,085)	814,225
Distributions to unitholders:		
Net investment income	(367,947)	(379,763)
Net assets attributable to holders of redeemable units, end of year	$ 7,220,853	$ 6,971,633

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units	$ 864,252	$ (328,984)
Cost of investments purchased	(9,093,223)	(7,451,432)
Proceeds on sale of investments	9,338,033	6,500,857
Adjustments		
Net realized losses (gains) on investments	(117,803)	137,033
Net change in unrealized depreciation (appreciation) on investments	(383,893)	567,074
Change in non-cash balances related to operations:		
Due from brokers	–	74,559
Accrued income receivable	(1,162)	5,263
Subscriptions receivable	(111)	43,000
Due to brokers	69,026	(32,304)
Accrued liabilities	(311,287)	278,761
	363,832	(206,173)
Financing activities:		
Payments for units redeemed	(990,599)	(849,117)
Proceeds for issuance of units	486,000	1,405,000
Distributions	(110,433)	(121,421)
	(615,032)	434,462
Increase (decrease) in cash	(251,200)	228,289
Cash, beginning of year	341,463	113,174
Cash, end of year	$ 90,263	$ 341,463

See accompanying notes to financial statements.

MALACHITE AGGRESSIVE PREFERRED FUND

Schedule of Investments

December 31, 2014

Number of shares	Security	Book value	Fair value	Weight in portfolio
3,700	Artis Real Estate Investment Trust, 4.75% cum RT RST PFO, Series E Trust units	$ 74,686	$ 72,150	1.00%
2,700	Atlantic Power Preferred Equity Ltd. cum Floating rate Preferred shares, Series 3	33,916	33,750	0.50%
15,300	Brookfield Asset Management 4.75% cum Preferred shares, Series 17, Class A	328,774	327,267	4.50%
700	Brookfield Renewable Power, 5.00% cum PFD Equity Inc. PFD Class A, Series 5	14,931	14,980	0.20%
1,500	Brookfield Renewable Power, 5.00% PFD Equity Inc. cum Class A 56	32,045	31,995	0.40%
1,700	Canaccord Genuity Group Inc., 5.75% cum 5 year RT RST 1st Series C	36,270	32,300	0.40%
1,700	Canaccord Genuity Group Inc., 5.50% cum 5 year RT RST 1st PFD S-A	34,742	36,125	0.50%
5,500	Canadian General Investments Ltd. 3.75%RED CL A PFD SERIES 4	138,722	142,450	2.00%
8,600	Dividend 15 Split Corp II 5.25% Preferred shares	87,355	86,430	1.20%
6,300	Dividend Growth Split Corp, Preferred shares	63,953	63,693	0.90%
3,300	Enbridge Inc., 4.00% cum, Red RT RST Preferred shares, Series H	69,502	70,323	1.00%
4,000	Fairfax Financial Holdings Ltd., cum 5 year RT Reset Preferred shares, Series E	78,950	73,600	1.00%
6,900	First National Financial Corp., 4.65% Class A, Preference shares, Series 1	132,576	104,673	1.40%
5,000	Financial 15 Split Corp. 5.25% cum RED Retr Preferred	50,436	50,200	0.70%

MALACHITE AGGRESSIVE PREFERRED FUND

Schedule of Investments (continued)

December 31, 2014

Number of shares	Security	Book value	Fair value	Weight in portfolio
5,000	Fortis Inc. cum redeemable 5 year fixed rate 1st Preferred shares, Series H	309,958	288,259	3.90%
29,800	Great West Lifeco Inc. 4.50% non-cum 1st Preferred shares, Series 1	669,537	710,730	9.70%
30,800	Great West Lifeco Inc. 3.65% non-cum 5 year rate reset, 1st Preferred shares, Series R	675,083	643,720	8.80%
6,600	Great West Lifeco Inc. 4.80% non-cum 1st Preferred shares, Series R	161,849	164,076	2.20%
5,100	Husky Energy Inc. 4.45% cumulative RT RST Redeemable 1st Preferred shares, Series 1	100,505	109,089	1.50%
29,600	Industrial Alliance Insurance and Finance 4.60% Non-cum RT RST Class A Preference shares	673,233	700,040	9.60%
4,800	Intact Financial Corp., 4.2% non-cum RT RST Class A Preferred shares, Series 1	116,175	109,056	1.50%
6,300	Manulife Financial Corp., 4.50% Class A Preferred shares, Series 3	150,238	148,365	2.00%
28,900	Manulife Financial Corp., 4.20% non-cum RT RST Preferred shares, Series 3	644,081	645,915	8.80%
3,500	Northland Power Inc., 5.25% cum RT RST Preferred shares	70,482	71,050	1.00%
14,200	Partners Value Split Corp, cum Class AA Preferred shares, Series 6	350,520	349,320	4.80%
1,000	Power Financial Corporation 4.40% Non-cum, 5 year rate, RT RST 1st Preferred shares, Series P	20,567	21,500	0.30%

MALACHITE AGGRESSIVE PREFERRED FUND

Schedule of Investments (continued)

December 31, 2014

Number of shares	Security	Book value	Fair value	Weight in portfolio
19,100	Sun Life Financial Inc. 4.45%, Class A N-C Preferred shares, Series 3 PERP	425,708	454,580	6.20%
14,600	Sun Life Financial Inc. 4.45%, Class A Non-cum Preferred shares, Series 4	313,243	347,334	4.80%
28,700	Sun Life Financial Inc. 4.35%, non-cum RT RST Preferred shares, Series 8R	640,242	620,781	8.50%
3,000	Transalta Corporation, 5% cumulative RED RT RST 1st Preferred shares, Series E	64,118	62,730	0.90%
10,800	TransCanada Corporation 3.266% cum RED 5 year RST 1st Preferred shares, Series I	228,265	223,020	3.10%
22,000	TransCanada Corporation cum redeemable 1st Preferred shares, Series 2	464,982	489,718	6.70%
Total investments		$ 7,255,644	$ 7,299,219	100.00%

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 129 Humbercrest Boulevard, Toronto, ON, M6S 4L4.

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. 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 25, 2015.

2. Basis of preparation:

(a) Basis of accounting:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Fund's first annual financial statements prepared in accordance with IFRS and, accordingly, IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the Chartered Professional Accountants of Canada Handbook ("Canadian GAAP"). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 13 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013, previously prepared under Canadian GAAP.

2. Basis of preparation (continued):

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

3. Significant accounting policies (continued):

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

Financial assets at fair value through profit or loss:

- Held for trading: derivative financial instruments; and
- Designated as at fair value through profit or loss: debt securities and equity investments.

Financial assets at amortized cost:

- Loans and receivables: all other financial assets.

Financial liabilities at fair value through profit or loss:

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

(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 ("NAV") for transactions with unitholders.

3. Significant accounting policies (continued):

(iii) Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statements 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.

(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 broker 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 from broker 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.

3. Significant accounting policies (continued):

Increase (decrease) in net assets attributable to holders of redeemable units per unit in the statements 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 fair value through profit or loss. 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.

Income and realized and unrealized capital gain (loss) 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 statements of comprehensive income based on trade date.

3. Significant accounting policies (continued):

(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:

The International Accounting Standards Board ("IASB") has issued the following new standards and amendments to existing standards that are not yet effective. The Fund has not yet begun the process of assessing the impact the new and amended standards will have on its financial statements or whether to early adopt any of the new standards.

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

In July 2014, the IASB issued IFRS 9 to replace International Accounting Standard ("IAS") 39, Financial Instruments - Recognition and Measurement. IFRS 9 addresses classification and measurement, impairment and hedge accounting. The new standard requires assets to be classified based on the Fund's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. Financial assets will be measured at FVTPL unless certain conditions are met which permit measurement at amortized cost or value through other comprehensive income. The classification and measurement of liabilities remain generally unchanged, with the exception of liabilities recorded at FVTPL. For financial liabilities designated at FVTPL, IFRS 9 requires the presentation of the effects of changes in the Fund's own credit risk in other comprehensive income instead of net income. IFRS 9 is effective for fiscal years beginning on January 1, 2018, though early adoption is permitted. The Investment Manager is currently assessing the impact of this new standard on the Fund's financial statements.

4. Related party balances:

Included in accrued liabilities are distributions payable to unitholders of $25,896 (December 31, 2013 - $23,967; January 1, 2013 - $26,327) and amounts due to the Investment Manager of $18,863 (December 31, 2013 - $126,470; January 1, 2013 - $49,319).

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 statements 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 on investments, which is paid or payable to unitholders. Such distributed income is taxable in the hands of the unitholders.

6. Income taxes (continued):

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, 2014, the Fund had capital losses of approximately $106,000 available to reduce future net realized capital gains.

7. Brokerage commissions:

Commissions paid to brokers in connection with portfolio transactions are disclosed in the statements 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 statements of changes in net assets attributable to holders of redeemable units.

8. Redeemable units (continued):

Unit transactions for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Opening	706,226.4696	633,955.7154
Subscriptions	46,221.9904	131,485.6012
Distributions reinvested	24,629.3025	25,179.9417
Redemptions	(93,935.8505)	(84,394.7887)
Closing	683,141.9120	706,226.4696

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, 2014, December 31, 2013 and January 1, 2013.

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, 2014, with all other variables held constant, the net assets of the Fund would have increased or decreased, respectively by approximately $360,000 (December 31, 2013 - $370,000; January 1, 2013 - $330,000) (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 statements 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 statements of changes in net assets attributable to holders of redeemable units. The Fund endeavours to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

12. Filing exemption:

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

13. Transition to IFRS:

As explained in note 2, these are the Fund's first financial statements prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2014, the comparative information presented in these financial statements for the year ended December 31, 2013, and in the preparation of an opening statement of financial position as at January 1, 2013 (the Fund's date of transition).

In preparing its opening IFRS statement of financial position, the Fund made no adjustments to amounts reported previously in the financial statements prepared in accordance with previous Canadian GAAP (Part V).

13. Transition to IFRS (continued):

The effect of the Fund's transition to IFRS is summarized in this note as follows:

(a) Statement of cash flows:

Under Canadian GAAP, the Fund was exempt from presenting a statement of cash flows, whereas under IFRS a statement of cash flows is required without exception.

(b) Classification of redeemable units issued by the Fund:

Previously under Canadian GAAP, the units of the Fund were classified as equity instruments. In accordance with IAS 32, Financial Instruments - Presentation, the units of the Fund are classified as financial liabilities, as there is a requirement to distribute net income and capital gains earned by the Fund.

(c) Revaluation of investments at FVTPL:

Previously under Canadian GAAP, the fair value of the Fund's investments was measured at closing bid prices for financial assets and asking price for financial liabilities. Under IFRS, the Investment Manager concluded that this basis of measurement continues to be appropriate and, accordingly, there was no restatement of prior year information.