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MARRET\_139\_AR\_03/20E

# Annual Financial Statements - December 31, 2019



## Marret Multi-Strategy Income Fund

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## *Independent auditor's report*

To the Unitholders and Trustee of  
Marret Multi-Strategy Income Fund (the Fund)

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2019 and 2018 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2019 and 2018;
- the statements of comprehensive income for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

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

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### *Other information*

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

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

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

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

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### *Responsibilities of management and those charged with governance for the financial statements*

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
March 19, 2020

# Marret Multi-Strategy Income Fund

## Financial Statements

### Statements of Financial Position

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

	2019	2018
<b>Assets</b>		
<b>Current assets</b>		
Investments	1,202,241	1,898,343
Cash	4,884	4,689
Receivable for investments sold	-	-
Receivable for unit subscriptions	-	-
Interest receivable	-	-
Dividends receivable	-	-
Other assets	-	10,831
Derivative assets	-	-
	1,207,125	1,913,863
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank overdraft	-	-
Payable for investments purchased	-	-
Payable for unit redemptions	-	-
Management fees payable	-	-
Other accrued expenses	319,874	268,266
Distributions payable to holders of redeemable units	-	-
Derivative liabilities	-	-
	319,874	268,266
<b>Net assets attributable to holders of redeemable units</b>	<b>887,251</b>	<b>1,645,597</b>
<b>Net assets attributable to holders of redeemable units per class (Note 4):</b>		
Class A	812,420	1,506,171
Class F	74,831	139,426
<b>Net assets attributable to holders of redeemable units per unit:</b>		
Class A	0.25	0.46
Class F	0.26	0.49
<b>Number of redeemable units outstanding:</b>		
Class A	3,301,850	3,301,850
Class F	285,992	285,992

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

# Marret Multi-Strategy Income Fund

## Financial Statements

### Statements of Comprehensive Income

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

	2019	2018
<b>Income</b>		
Net gain (loss) on investments and derivatives		
Dividends	-	-
Interest for distribution purposes	199	198
Net realized gain (loss) on sale of investments and derivatives	-	-
Net realized foreign exchange gain (loss) on investments and derivatives	-	73
Change in unrealized appreciation (depreciation) in value of investments and derivatives	(696,102)	-
<b>Total net gain (loss) on investments and derivatives</b>	<b>(695,903)</b>	<b>271</b>
Other income		
Foreign exchange gain (loss) on cash	-	-
Change in unrealized foreign exchange gain (loss) on cash	(4)	3
Other income	-	903
<b>Total other income</b>	<b>(4)</b>	<b>906</b>
<b>Total income</b>	<b>(695,907)</b>	<b>1,177</b>
<b>Expenses</b>		
Management fees (Note 5)	-	-
Operating fees	-	-
Fund administration expense	-	-
Audit fees	19,223	28,455
Legal fees	10,802	4,513
Trustee fees	-	2,257
Transfer agent fees	17,914	14,533
Custodial and administrative fees	14,500	11,698
Independent review committee fees	-	-
Unitholders reporting costs	-	-
Commissions and other portfolio transaction costs	-	-
Professional fees	-	-
Regulatory fees	-	13,542
Other expenses	-	-
Interest expense	-	-
Withholding taxes	-	-
<b>Total expenses</b>	<b>62,439</b>	<b>74,998</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>(758,346)</b>	<b>(73,821)</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per class:</b>		
Class A	(693,751)	(67,632)
Class F	(64,595)	(6,189)
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit:</b>		
Class A	(0.21)	(0.02)
Class F	(0.23)	(0.02)
<b>Weighted average number of units:</b>		
Class A	3,301,850	3,301,850
Class F	285,992	285,992

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

# Marret Multi-Strategy Income Fund

## Financial Statements

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

	2019	2018
<b>Class A</b>		
<b>Net assets attributable to holders of redeemable units at the beginning of year</b>	1,506,171	1,573,803
Increase (decrease) in net assets attributable to holders of redeemable units	(693,751)	(67,632)
<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>		
Conversion of Class F to Class A units	-	-
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>	(693,751)	(67,632)
<b>Net assets attributable to holders of redeemable units at the end of year</b>	812,420	1,506,171
<b>Class F</b>		
<b>Net assets attributable to holders of redeemable units at the beginning of year</b>	139,426	145,615
Increase (decrease) in net assets attributable to holders of redeemable units	(64,595)	(6,189)
<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>		
Conversion of Class F to Class A units	-	-
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>	(64,595)	(6,189)
<b>Net assets attributable to holders of redeemable units at the end of year</b>	74,831	139,426

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

# Marret Multi-Strategy Income Fund

## Financial Statements

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

	2019	2018
<b>Total Fund</b>		
<b>Net assets attributable to holders of redeemable units at the beginning of year</b>	1,645,597	1,719,418
Increase (decrease) in net assets attributable to holders of redeemable units	(758,346)	(73,821)
<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>		
Conversion of Class F to Class A units	-	-
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>	(758,346)	(73,821)
<b>Net assets attributable to holders of redeemable units at the end of year</b>	887,251	1,645,597

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

# Marret Multi-Strategy Income Fund

## Financial Statements

### Statements of Cash Flows

for the years ended December 31 (in \$)

	2019	2018
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	(758,346)	(73,821)
Adjustments for:		
Net realized (gain) loss on sale of investments and derivatives	-	-
Change in unrealized (appreciation) depreciation in value of investments and derivatives	696,102	-
Change in unrealized foreign exchange (gain) loss on cash	4	(3)
Proceeds from sale and maturity of investments and derivatives	-	-
Purchase of investments and derivatives	-	-
(Increase) decrease in interest receivable	-	-
(Increase) decrease in dividends receivable	-	-
(Increase) decrease in other assets	10,831	(2,429)
Increase (decrease) in other accrued expenses	51,608	76,524
<b>Net cash from (used in) operating activities</b>	199	271
<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>	-	-
Change in unrealized foreign exchange gain (loss) on cash	(4)	3
Net increase (decrease) in cash	199	271
Cash (bank overdraft), beginning of year	4,689	4,415
<b>Cash (bank overdraft), end of year</b>	4,884	4,689
<b>Supplementary Information:</b>		
Dividends received, net of withholding tax*	-	-
Interest received, net of withholding tax*	198	198
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 Multi-Strategy Income Fund

Schedule of Investment Portfolio as at December 31, 2019

No. of Shares/ Par Value	Description	Average Cost (\$)	Fair Value (\$)
<b>CANADIAN BONDS</b>			
<b>Canadian Corporate Bonds (135.50%)</b>			
1,826,314	Cline Mining Corp., Floating Rate, 2022/07/08	1,826,314	1,107,184
156,797	Cline Mining Corp., Floating Rate, 2022/07/08	156,797	95,057
		<b>1,983,111</b>	<b>1,202,241</b>
	<b>Total Canadian Bonds (135.50%)</b>	<b>1,983,111</b>	<b>1,202,241</b>
<b>CANADIAN EQUITIES</b>			
<b>Canadian Equities (0.00%)</b>			
495,692	Cline Mining Corp., Convertible	127,484	-
		<b>127,484</b>	<b>-</b>
	<b>Total Canadian Equities (0.00%)</b>	<b>127,484</b>	<b>-</b>
	Less: Commissions and other portfolio transaction costs	-	
	<b>Total Investments (135.50%)</b>	<b><u>2,110,595</u></b>	<b>1,202,241</b>
	<b>Other Assets, Less Liabilities (-35.50%)</b>		<b>(314,990)</b>
	<b>Net Assets Attributable to Holders of Redeemable Units (100.00%)</b>		<b><u>887,251</u></b>

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

# Marret Multi-Strategy Income Fund

## Fund Specific Notes to Financial Statements

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

	2019	2018
<b>Class A</b>		
<b>Number of redeemable units at the beginning of year</b>	3,301,850	3,301,850
Redeemable units issued for cash	-	-
Redeemable units issued for reinvested distributions	-	-
Conversion of Class F to Class A units	-	-
Redeemable units redeemed	-	-
<b>Number of redeemable units at the end of year</b>	<b>3,301,850</b>	<b>3,301,850</b>
<b>Class F</b>		
<b>Number of redeemable units at the beginning of year</b>	285,992	285,992
Redeemable units issued for cash	-	-
Redeemable units issued for reinvested distributions	-	-
Conversion of Class F to Class A units	-	-
Redeemable units redeemed	-	-
<b>Number of redeemable units at the end of year</b>	<b>285,992</b>	<b>285,992</b>

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

	2019
<b>Net capital loss carried forward:</b>	308,515
<b>Non-capital losses expiring:</b>	
2029	-
2030	-
2031	2,647,472
2032	3,349,258
2033	2,849,906
2034	231,645
2035	1,032,320
2036	417,962
2037	100,550
2038	73,860
2039	62,241
<b>Total Non-capital losses</b>	<b>10,765,214</b>

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

# Marret Multi-Strategy Income Fund

## Fund Specific Notes to Financial Statements

### Financial Instruments Risks (Note 7)

#### Concentration Risk

For Concentration Risk as at December 31, 2019, refer to the Schedule of Investment Portfolio.

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

as at December 31, 2018

	% of Net Assets Attributable to Holders of Redeemable Units
Canadian Corporate Bonds	115.36
<b>Total Bonds</b>	<b>115.36</b>
Canadian Equities	-
<b>Total Equities</b>	<b>-</b>
<b>Total Investments</b>	<b>115.36</b>

#### Credit Risk

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

as at December 31, 2019

Credit Rating <sup>^</sup>	% of Net Assets Attributable to Holders of Redeemable Units		
	Long	Short	Net
Unrated	135.50	-	135.50
<b>Total</b>	<b>135.50</b>	<b>-</b>	<b>135.50</b>

as at December 31, 2018

Credit Rating <sup>^</sup>	% of Net Assets Attributable to Holders of Redeemable Units		
	Long	Short	Net
Unrated	115.36	-	115.36
<b>Total</b>	<b>115.36</b>	<b>-</b>	<b>115.36</b>

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

#### Other Price Risk

As at December 31, 2019 and 2018, the other price risk of the Fund was insignificant as the Fund was invested in fixed income securities.

#### Currency Risk

As at December 31, 2019 and 2018, 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.

#### Interest Rate Risk

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

as at December 31, 2019

Bonds	Long (in \$)	Short (in \$)	Net (in \$)
< 1 year	-	-	-
1-3 years	1,202,241	-	1,202,241
3-5 years	-	-	-
> 5 years	-	-	-
<b>Total</b>	<b>1,202,241</b>	<b>-</b>	<b>1,202,241</b>

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

# Marret Multi-Strategy Income Fund

## Fund Specific Notes to Financial Statements

### Interest Rate Risk (cont'd)

as at December 31, 2018

<b>Bonds</b>	<b>Long (in \$)</b>	<b>Short (in \$)</b>	<b>Net (in \$)</b>
< 1 year	-	-	-
1-3 years	-	-	-
3-5 years	1,898,343	-	1,898,343
> 5 years	-	-	-
<b>Total</b>	<b>1,898,343</b>	<b>-</b>	<b>1,898,343</b>

As at December 31, 2019, had the prevailing interest rates increased or decreased by 1% (December 31, 2018 - 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 \$2,997 (December 31, 2018 - \$4,681). In practice, the actual results may differ from this analysis and the difference may be material.

### Fair Value Hierarchy

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

as at December 31, 2019

	<b>Level 1 (in \$)</b>	<b>Level 2 (in \$)</b>	<b>Level 3 (in \$)</b>	<b>Total (in \$)</b>
Bonds	-	-	1,202,241	1,202,241
Equities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,202,241</b>	<b>1,202,241</b>

as at December 31, 2018

	<b>Level 1 (in \$)</b>	<b>Level 2 (in \$)</b>	<b>Level 3 (in \$)</b>	<b>Total (in \$)</b>
Bonds	-	-	1,898,343	1,898,343
Equities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,898,343</b>	<b>1,898,343</b>

There were no transfers between Level 1, 2 and 3 during the years ended December 31, 2019 and 2018.

### Level 3 Reconciliation

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

for the year ended December 31, 2019

	<b>Balance at Dec. 31, 2018 (in \$)</b>	<b>Purchases (in \$)</b>	<b>Sales (in \$)</b>	<b>Transfers In (in \$)</b>	<b>Transfers (Out) (in \$)</b>	<b>Realized Gain (Loss) (in \$)</b>	<b>Change in Unrealized Appreciation (Depreciation) (in \$)</b>	<b>Balance at Dec. 31, 2019 (in \$)</b>
Bonds	1,898,343	-	-	-	-	-	(696,102)	1,202,241
Equities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,898,343</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(696,102)</b>	<b>1,202,241</b>

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

# Marret Multi-Strategy Income Fund

## Fund Specific Notes to Financial Statements

### Level 3 Reconciliation (cont'd)

for the year ended December 31, 2018

	Balance at Dec. 31, 2017 (in \$)	Purchases (in \$)	Sales (in \$)	Transfers In (in \$)	Transfers (Out) (in \$)	Realized Gain (Loss) (in \$)	Change in Unrealized Appreciation (Depreciation) (in \$)	Balance at Dec. 31, 2018 (in \$)
Bonds	1,898,343	-	-	-	-	-	-	1,898,343
Equities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,898,343</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,898,343</b>

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

for the year ended December 31, 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	1,107,184	Discounted cash flow	Discount rate	12%	183,023	420,070
Cline Mining Corp., Floating Rate, 2022/07/08	95,057	Discounted cash flow	Discount rate	12%	15,713	36,065
<b>Total</b>	<b>1,202,241</b>				<b>198,736</b>	<b>456,135</b>

for the year ended December 31, 2018

Description	Fair Value (in \$)	Valuation Technique	Unobservable Inputs	Value of Unobservable Inputs	Change in Valuation + (in \$)	Change in Valuation - (in \$)
Cline Mining Corp., Floating Rate, 2022/07/08	1,748,248	Discounted cash flow	Discount rate	12%	288,993	(663,291)
Cline Mining Corp., Floating Rate, 2022/07/08	150,095	Discounted cash flow	Discount rate	12%	24,811	(56,946)
<b>Total</b>	<b>1,898,343</b>				<b>313,804</b>	<b>(720,237)</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 Multi-Strategy Income Fund

## Notes to the Financial Statements

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### 1. THE FUND

Marret Multi-Strategy Income 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 February 25, 2011. 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.

The Fund made an offering of Class A units and Class F units. The Class F units were intended for fee based and/or institutional accounts and were not listed on the Toronto Stock Exchange ("TSX") though they are convertible into Class A units on a monthly basis. The Class A units of the Fund commenced trading on March 18, 2011 on the TSX. Net proceeds of \$165.6 million (net of issue costs of \$10.0 million) were raised in the initial public offering and exercise of the over-allotment option to brokers, on the issuance of 14,628,451 Class A units. Net proceeds of \$20.6 million (net of issue costs of \$0.6 million) were raised on the initial public offering on the issuance of 1,761,549 Class F units.

The Fund is currently terminating pursuant to its Declaration of Trust which provides that, to the extent the affairs of the Fund have not been completely wound up and all of the assets distributed to unitholders on or prior to the 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 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 March 19, 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").

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 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.

# Marret Multi-Strategy Income Fund

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

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### **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 unrealized appreciation (depreciation) in value of investments and derivatives" in the Statements of Comprehensive Income.

### **h) Unit valuation**

The total net asset value ("NAV") is calculated by subtracting the aggregate amount of the liabilities from the total assets 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 December 31, 2019 and 2018, 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.

# Marret Multi-Strategy Income Fund

Notes to the Financial Statements (cont'd)

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**i) Classification of units**

The Fund's units are classified as liability, because they don't meet the "identical features" criteria and therefore violate IAS 32.16A(c).

**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) Allocation of income and expenses**

With the exception of service fees (which are payable only on Class A units) and certain issue costs (in particular the agent's fees), income and expenses are allocated to unitholders on a pro rata basis based on the net asset value attributable to each class of units. Specific expenses are charged to the class of units to which they pertain.

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

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

**m) Withholding taxes**

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

### 3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

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

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

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

***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.

# Marret Multi-Strategy Income Fund

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

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### 4. REDEEMABLE UNITS

Units issued and outstanding represent the capital of the Fund.

On December 18, 2014, the Fund suspended its annual and monthly redemptions.

#### **Conversion of Class F Units**

A holder of Class F units may convert Class F units into Class A units. Class F units may be converted in any month on the first business day of the month by delivering written notice to the Fund and surrendering such Class F unit at least 15 business days prior to the conversion date. For each Class F unit so converted, a holder will receive that number of Class A units equal to the net asset value per Class F unit on the conversion date divided by the net asset value per Class A unit on the conversion date. No fraction of a Class A unit will be issued on conversion of a Class F unit. Any remaining fraction of a Class F unit will be redeemed.

As at December 31, 2019, the fair value of the Fund's net assets based on CSE closing market price was \$198,111 (December 31, 2018 - \$66,037 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 a management agreement (the "Management Agreement") dated February 25, 2011 to administer all of the ongoing operations of the Fund. Prior to January 16, 2015, in consideration for the services provided by the Manager, the Fund paid a management fee equal to 0.25% per annum of the net asset value of the Fund. Prior to settlement of the Forward Purchase Agreement, the Fund paid management fees of 1.50% in total when combined with the management fee paid by the Trust. The management fee is calculated daily and payable monthly in arrears, plus applicable taxes. Since January 16, 2015, 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 period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset. Income tax on net realized capital gains not paid or payable will generally be recoverable by virtue of refunding provisions contained in the *Income Tax Act* (Canada) and provincial income tax legislation, as redemptions occur. Occasionally, the Fund may distribute more than it earns. This excess distribution is a return of capital and is not taxable to unitholders.

Since January 16, 2015, the Fund has ceased making quarterly distributions while it is in the process of terminating. Upon liquidation of the Private Portfolio, the Fund will distribute the net proceeds (net of any expenses associated with the disposal thereof) to unitholders.

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

### 7. FINANCIAL INSTRUMENT RISK MANAGEMENT

In the normal course of business, the Fund is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including other price risk, currency risk and interest rate risk). The Fund's overall risk management program focuses on compliance and execution of the Fund's investment objectives. The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisers, daily monitoring of the Fund's positions and market events and by diversifying the investment portfolio of the Fund within the constraints of the investment strategy. 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 Multi-Strategy Income Fund

Notes to the Financial Statements (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 includes consideration of the credit worthiness of the issuer and therefore represents the maximum credit exposure of the Fund.

Cash balances as disclosed in the Statements of Financial Position are maintained by the Custodian. The Manager monitors the credit worthiness of the Custodian on a regular basis. The credit rating of the Custodian as at December 31, 2019 was A+ (December 31, 2018 - A+).

## **Liquidity Risk**

The Fund invests in investments that are illiquid. There can be no assurance that an adequate market for the Fund's investments will exist at all times, or that the prices at which the underlying investments trade, accurately reflect their net asset values. All liabilities are due in less than 3 months. Cline Mining Corporation bond positions owned by the Fund are considered illiquid and represent 135.50% of the Fund's net assets attributable to holders of redeemable units at December 31, 2019 (December 31, 2018 - 115.36%).

## **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)

# Marret Multi-Strategy Income Fund

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

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

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

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

### 8. SUBSEQUENT EVENT

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

The purchase price for the shares in NECC will be U.S.\$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.

Completion of the purchase must take place before July 14, 2020 (Closing) and is subject to various conditions, including a feasibility study and financing arrangements acceptable to Allegiance and to final binding legal documents.

Completion of the sale must take place before July 15, 2020 (Completion).

The Debt will be repaid by NECC to Cline as follows:

- U.S.\$3M in cash on Completion;
- U.S.\$3M in Allegiance shares issued on Completion, subject to a voluntary 12-month hold period;
- U.S.\$5M on Completion 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 Completion. 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 Completion. Such costs are fixed at U.S.\$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 U.S.\$40 million.

The transaction is subject to normal conditions for similar transactions and to Allegiance raising start-up capital for the Mine, which Allegiance currently estimates at U.S.\$30 million.

# Marret Multi-Strategy Income 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**.