



LetkoBrosseau

Letko Brosseau Bond Fund
Letko Brosseau Fonds d'obligations

ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)



Contents

Independent Auditors' Report	
Statements of Financial Position	3
Statements of Changes in Net Assets Attributable to Holders of Redeemable Units	4
Statements of Comprehensive Income	5
Statements of Cash Flows	6
Schedule of Investment Portfolio	7
Notes to Annual Financial Statements	10

INDEPENDENT AUDITORS' REPORT

To the Unitholders of
LETKO BROUSSEAU BOND FUND
LETKO BROUSSEAU FONDS D'OBLIGATIONS

Opinion

We have audited the financial statements of **LETKO BROUSSEAU BOND FUND / LETKO BROUSSEAU FONDS D'OBLIGATIONS** (the "Fund"), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of changes in net assets attributable to holders of redeemable units, statements of comprehensive income and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Fund Manager and Those Charged with Governance for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Fund Manager 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, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Fund Manager 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.

Auditors' 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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 over-ride 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 the Fund Manager.
- Conclude on the appropriateness of the Fund Manager'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 auditors' 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 auditors' report. However, future events or conditions may cause the Fund to cease to continue as 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.



	2019 \$	2018 \$
Current assets		
Cash	45,330	30,600
Investments	23,133,383	13,826,059
Interest, dividends and other receivables	77,756	48,260
	<u>23,256,469</u>	<u>13,904,919</u>
Current liabilities		
Amounts payable on redemptions of redeemable units	23,378	-
Accrued expenses	16,643	15,066
	<u>40,021</u>	<u>15,066</u>
Net assets attributable to holders of redeemable units	<u>23,216,448</u>	<u>13,889,853</u>

Supplementary information

Number of redeemable units in circulation (note 5)	2,411,715	1,449,052
Net assets per unit attributable to holders of redeemable units (note 6)	\$ 9.6265	\$ 9.5855

Approved by the Board of Directors of Letko, Brosseau & Associates Inc., Fund Manager

Daniel Brosseau, Director

Peter Letko, Director

LETKO BROSSEAU BOND FUND
 LETKO BROSSEAU FONDS D'OBLIGATIONS
 STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
 (Expressed in Canadian Dollars)



	2019	2018
	\$	\$
Net assets attributable to holders of redeemable units, beginning of year	13,889,853	11,972,022
Change in net assets attributable to holders of redeemable units	450,902	202,578
Redeemable unit transactions		
Proceeds from issuance	12,040,345	3,060,638
Reinvestment of distributions	377,050	265,499
Redemptions	(3,143,016)	(1,321,062)
	9,274,379	2,005,075
Distributions to holders of redeemable units (note 6)		
Net investment income	(398,686)	(289,822)
Net assets attributable to holders of redeemable units, end of year	23,216,448	13,889,853

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



	2019	2018
	\$	\$
Investment income		
Interest income for distribution purposes	405,667	302,312
Dividend income	10,141	9,646
Net securities lending income (note 9)	3,290	1,398
Foreign exchange gain (loss) on cash	(6,400)	(177)
Net realized gain (loss) on sale of investments	(13,843)	1,093
Net changes in unrealized appreciation (depreciation) of investments	73,027	(91,932)
	471,882	222,340
Expenses		
Trustee fees (note 10)	6,403	2,714
Professional fees	12,272	16,593
Filing fees	2,286	455
Withholding taxes	19	-
	20,980	19,762
Change in net assets attributable to holders of redeemable units	450,902	202,578
Change in net assets per unit attributable to holders of redeemable units (note 3)	0.2165	0.1497

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



	2019	2018
	\$	\$
Cash flows from (used in) operating activities		
Change in net assets attributable to holders of redeemable units	450,902	202,578
Adjustments or variations for :		
Foreign exchange (gain) loss on cash	6,400	177
Net realized (gain) loss on sale of investments	13,843	(1,093)
Net changes in unrealized (appreciation) depreciation of investments	(73,027)	91,932
Proceeds from sale or maturity of investments	30,578,632	8,522,385
Investments purchased	(39,833,172)	(10,538,528)
Interest, dividends and other receivables	(29,496)	(166)
Amounts payable on redemptions of redeemable units	23,378	-
Accrued expenses	1,577	1,013
	(8,860,963)	(1,721,702)
Cash flows from (used in) financing activities		
Proceeds from issuance of redeemable units	12,040,345	3,060,638
Amounts paid on redemptions of redeemable units	(3,143,016)	(1,321,062)
Distributions paid in cash to holders of redeemable units	(21,636)	(24,323)
	8,875,693	1,715,253
Change in cash	14,730	(6,449)
Cash, beginning of year	30,600	37,049
Cash, end of year	45,330	30,600

Supplementary information

Interest received	\$ 376,102	\$ 300,190
Dividends received	\$ 10,141	\$ 9,557

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



	Quantity	Cost \$	Fair Value \$
Equities			
Communication Services			
BCE			
Series AA, preferred, 3.610%	5,000	119,750	78,825
Series AJ, preferred, floating dividend	5,700	132,525	87,837
Total Equities		252,275	166,662

	Par Value	Cost \$	Fair Value \$
Canadian Government Bonds			
Federal Government			
Canada Housing Trust			
floating rate, 2020-03-15	200,000	200,104	200,091
1.200%, 2020-06-15	115,000	114,662	114,710
1.450%, 2020-06-15	150,000	149,921	149,786
1.150%, 2021-12-15	700,000	670,781	691,638
1.800%, 2024-12-15	700,000	697,977	694,248
		1,833,445	1,850,473

Provincial Governments and Crown Corporations

CPPIB Capital			
1.400%, 2020-06-04	500,000	499,457	499,236
Province of Alberta			
1.250%, 2020-06-01	685,000	678,786	683,558
1.350%, 2021-09-01	900,000	886,439	893,108
1.600%, 2022-09-01	125,000	124,290	124,060
2.650%, 2023-09-01	250,000	256,125	255,878
Province of Manitoba			
floating rate, 2020-05-15	100,000	100,352	100,137
1.600%, 2020-09-05	100,000	99,767	99,871
1.550%, 2021-09-05	1,020,000	1,002,053	1,015,447
2.550%, 2023-06-02	800,000	814,888	815,899
Province of New Brunswick			
1.550%, 2022-05-04	500,000	495,650	496,090
Province of Newfoundland and Labrador			
stripped, 2021-04-17	500,000	487,856	487,383
1.950%, 2022-06-02	1,200,000	1,198,947	1,200,210
floating rate, 2023-02-27	100,000	100,000	100,202
Province of Nova Scotia			
floating rate, 2020-06-15	50,000	50,000	50,068
floating rate, 2024-11-09	335,000	335,848	337,747

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



	Par Value	Cost \$	Fair Value \$
Canadian Government Bonds (continued)			
Provincial Governments and Crown Corporations (continued)			
Province of Ontario			
4.200%, 2020-06-02	160,000	158,279	161,591
1.350%, 2022-03-08	1,050,000	1,044,647	1,038,697
3.150%, 2022-06-02	480,000	477,570	494,378
1.950%, 2023-01-27	50,000	49,706	50,069
2.300%, 2024-09-08	300,000	302,637	303,475
2.600%, 2025-06-02	75,000	75,320	76,953
PSP Capital			
1.340%, 2021-08-18	950,000	926,738	942,934
1.730%, 2022-06-21	200,000	194,080	199,358
		10,359,435	10,426,349
Municipalities and Parapublic Institutions			
City of Toronto			
2.450%, 2025-02-06	50,000	49,196	50,585
Municipal Finance Authority of British Columbia			
1.750%, 2020-10-15	400,000	399,891	399,854
1.650%, 2021-04-19	300,000	298,944	299,373
2.150%, 2024-06-03	100,000	99,849	100,342
Regional Municipality of York			
2.500%, 2026-06-02	200,000	203,870	202,500
Soucoa			
3.800%, 2020-11-02	700,000	712,852	711,567
Toronto Hydro Corporation			
2.910%, 2023-04-10	200,000	202,140	204,550
		1,966,742	1,968,771
Total Canadian Government Bonds		14,159,622	14,245,593
Corporate Bonds			
Bank of Montreal			
2.120%, 2022-03-16	200,000	196,754	199,986
Bank of Nova Scotia			
2.130%, 2020-06-15	50,000	50,700	50,041
2.090%, 2020-09-09	200,000	200,300	200,158
Bell Canada			
2.000%, 2021-10-01	400,000	398,924	398,778
Canadian Imperial Bank of Commerce			
floating rate, 2020-12-08	75,000	75,060	75,157
2.040%, 2022-03-21	200,000	199,210	199,662
Canadian Tire Corporation			
2.646%, 2020-07-06	275,000	276,210	275,617

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



	Par Value	Cost \$	Fair Value \$
Corporate Bonds (continued)			
Capital Power Corporation 5.276%, 2020-11-16	170,000	170,000	174,298
Enbridge 2.760%, 2021-06-02	100,000	100,930	100,908
First Capital Realty 5.600%, 2020-04-30	115,000	115,359	116,217
Pembina Pipeline Corporation 4.890%, 2021-03-29	130,000	130,000	134,077
2.560%, 2023-06-01	250,000	249,975	250,278
Royal Bank of Canada 1.920%, 2020-07-17	50,000	50,413	49,990
1.968%, 2022-03-02	375,000	369,291	373,834
Telus Corporation 2.350%, 2022-03-28	250,000	246,825	250,541
2.750%, 2026-07-08	200,000	199,268	198,721
Toronto-Dominion Bank 1.693%, 2020-04-02	50,000	50,195	49,971
Total Corporate Bonds		3,079,414	3,098,234
Total Bonds		17,239,036	17,343,827
Money Market Securities			
Canada Treasury Bills 2020-01-09	1,895,000	1,888,007	1,888,007
2020-01-23	30,000	29,885	29,885
Nova Scotia Treasury Bills 2020-01-23	20,000	19,978	19,978
Ontario Treasury Bills 2020-01-02	285,000	283,763	283,763
2020-01-22	60,000	59,791	59,791
2020-02-12	70,000	69,730	69,730
2020-02-19	1,080,000	1,075,773	1,075,773
Province of Alberta, notes 2020-01-02	20,000	19,945	19,945
2020-01-06	335,000	334,035	334,035
2020-02-04	20,000	19,915	19,915
Province of Quebec, notes 2020-03-25	1,170,000	1,164,864	1,164,864
Quebec Treasury Bills 2020-02-28	660,000	657,208	657,208
Total Money Market Securities		5,622,894	5,622,894
Portfolio Transaction Costs Included in the Securities' Cost		(288)	
Total Investments		23,113,917	23,133,383

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



1. Establishment of the fund

The Letko Brosseau Bond Fund / Letko Brosseau Fonds d'obligations (the "Fund") is a private unit investment trust created under a trust agreement established on November 30, 2004 under the laws of the province of Ontario, Canada. The registered office is located at 155 Wellington Street West, Toronto, Ontario, Canada, M5V 3L3.

The trust agreement designates RBC Investor Services Trust as the trustee, custodian and accountant of the Fund (the "Trustee") and Letko, Brosseau & Associates Inc. as the manager of the Fund (the "Manager").

2. Basis of presentation

These financial statements, for which the functional and presentation currency is the Canadian dollar, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB") and comply with the requirements of the Canadian Securities Administrators ("CSA").

The financial statements were authorized for issue by the Manager's Board of Directors on March 20, 2020.

These financial statements have been prepared on a historical cost basis with the exception of cash and investments which are measured at fair value.

3. Significant accounting policies

Financial instruments

Classification

The Fund classifies its financial assets based on both the Fund's business model for managing those financial assets and the associated contractual cash flow characteristics. Based on the Fund's objective of achieving long-term capital appreciation and the management and evaluation of the portfolio's performance on a fair value basis, the Fund applies the business model which requires that its portfolio, which includes cash and investments, be classified at fair value through profit or loss. All other financial assets and liabilities, with the exception of the Fund's obligation for net assets attributable to holders of redeemable units, are classified at amortized cost. The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount as described in note 6.

Recognition and measurement

The Fund recognizes financial instruments at fair value upon initial recognition. Purchases and sales of financial assets are recognized on the trade date. Subsequent to initial recognition, cash and investments are measured at fair value and gains and losses arising from changes in the fair value are recognized in the statements of comprehensive income. All other financial assets and financial liabilities are subsequently measured at amortized cost.

Portfolio transaction costs incurred by the Fund for the sale and purchase of investments are expensed as incurred.



3. Significant accounting policies (continued)

Financial instruments (continued)

Fair value

The fair value of the Fund's investments traded in active markets is determined using the quoted market prices at the close of trading on the date of the financial statements. The closing market price is either obtained from an accredited stock exchange where the security has the highest trading volume or from independent and renowned brokerage houses. In the event where the last closing market price does not fall within the bid-ask spread on the date of the financial statements, the Manager and the Trustee determine the point within the bid-ask spread that is most representative of fair value based on the facts and circumstances. Investment fund units held for trading that are not traded in active markets are measured at fair value based on their net asset value as determined by their trustee.

The Fund's accounting policies for measuring the fair value of its investments are consistent with those used to determine the net asset value for transactions with unitholders.

Information on the reliability of the fair value measurement of financial assets is disclosed in note 13. The transfer of a financial asset from one fair value hierarchy level to another is performed at the date of the event or change in circumstances which would justify a change in level.

Revenue recognition

Investment income is accounted for using the accrual method of accounting. Interest income for distribution purposes is recognized when it is earned. 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 using the effective interest rate method. Dividends are recognized on the ex-dividend date and distributions on investment fund units are recorded at the ex-distribution date. Income from securities lending is recorded when earned. Realized gains and losses upon disposition of investments are recognized on the trade date and are calculated using the average cost method.

Foreign currency translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates the transactions occur. Assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the exchange rate prevailing at the date of the financial statements. Foreign exchange gains and losses are presented in the statements of comprehensive income.

Change in net assets per unit attributable to holders of redeemable units

This change, presented in the statements of comprehensive income, represents the variation in net assets per unit attributable to holders of redeemable units based on the average number of redeemable units that were in circulation during the year.

Use of estimates, judgments and assumptions

The preparation of these financial statements in accordance with IFRS requires the Manager to make judgments in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Manager has made in preparing the financial statements.

Investment entity

The Manager has determined that the Fund meets the definition of an investment entity in accordance with IFRS 10 Consolidated Financial Statements. As a result, in the event the Fund holds an investment in a subsidiary, the Fund would account for this investment at fair value through profit or loss.



4. Future accounting standards

There are currently no new accounting standards, amendments to current standards or new interpretations that are effective for annual periods beginning on or after January 1, 2020 which would have a material effect on the Fund's financial statements.

5. Redeemable units in circulation

The Fund is authorized to issue an unlimited number of series of units each of which can contain an unlimited number of units, without par value. All units are voting, participating and redeemable by the unitholders at the net asset value.

Since its inception, the Fund has issued only one series of redeemable units.

	2019	2018
Number of redeemable units in circulation, beginning of year	1,449,052	1,240,084
Number of redeemable units issued and redeemed during the year		
Issued for cash and other consideration	1,250,105	318,994
Issued on reinvestment of distributions	39,128	27,683
Redeemed	(326,570)	(137,709)
Number of redeemable units in circulation, end of year	2,411,715	1,449,052

6. Valuation of redeemable units and distributions

The net asset value per unit, which represents the redemption amount, is determined by dividing the Fund's net assets at fair value by the number of redeemable units in circulation at the end of each valuation date.

Income from dividends, interest and securities lending, net of expenses of the Fund, is accounted for in the net assets attributable to holders of redeemable units. At the end of each month, income received, net of expenses paid, is distributed and reinvested as additional redeemable units or, at the discretion of the unitholders, is paid in cash. Realized gains and losses resulting from investment transactions are accounted for in the net assets attributable to holders of redeemable units and net realized gains on investment transactions are distributed and reinvested at the end of the fiscal year as additional redeemable units or, at the discretion of the unitholders, are paid in cash.

7. Capital management

The capital of the Fund is represented by redeemable units issued and in circulation. According to its mission, substantially all of the Fund's capital is invested in securities. Information about the Fund's objectives, policies and procedures for managing its capital is disclosed in note 12. The Fund is not subject to any particular external requirement for managing its capital.



8. Related party transactions

The following table presents a summary of the transactions during the year between the Fund and related parties. Related parties are represented by the Manager and the investment funds it manages, directors of the Manager, corporations controlled by the directors of the Manager, family members of the directors and a deferred profit sharing plan for the benefit of the Manager's employees.

2019	Manager \$	Other related parties \$
Redeemable units issued and redeemed		
Issued on reinvestment of distributions	-	270
Redeemed	-	-
	-	270

2018	Manager \$	Other related parties \$
Redeemable units issued and redeemed		
Issued on reinvestment of distributions	-	2,331
Redeemed	-	(100,325)
	-	(97,994)

These transactions took place in the normal course of operations and are measured at the net asset value at the date of the transactions.

As at December 31, related parties held units of the Fund with an aggregate fair market value of the following:

	2019 \$	2018 \$
Manager	-	-
Other related parties	13,815	13,487
	13,815	13,487



9. Net securities lending income

The Fund takes part in a securities lending program with the Trustee. Securities lending transactions involve the temporary exchange of securities for collateral with a commitment to return the same securities to the Fund on a future date. In accordance with the terms of the program, the Fund receives collateral of at least 102% of the fair value of the securities on loan. The collateral consists primarily of debt securities with high credit ratings. The fair value of the securities loaned is determined in accordance with standard market practices and additional collateral is requested if necessary.

The table below presents the aggregate fair value of the securities on loan and collateral held under securities lending transactions as at December 31. The securities on loan continue to be included in the schedule of investment portfolio.

	2019 \$	2018 \$
Total fair value of securities on loan	7,103,262	3,572,445
Total collateral held	7,245,366	3,643,946

Securities lending income reported in the statements of comprehensive income is net of securities lending charges which the Fund's Trustee is entitled to receive as per the terms of the program. For the years ended December 31, securities lending income was as follows:

	2019 \$	2018 \$
Gross securities lending income	5,695	2,768
Securities lending charges	(2,405)	(1,370)
Net securities lending income	3,290	1,398
Securities lending charges as a % of the gross securities lending income	42.2%	49.5%

10. Fees

Trustee fees are calculated according to an agreement between the Manager and the Trustee.

Management fees of the Manager are invoiced directly to the unitholders.

11. Income taxes

In accordance with provisions of the Income Tax Act (Canada) and the Quebec Taxation Act, the Fund qualifies as a unit trust and is taxed on its income received and not distributed to unitholders. The Fund distributes to unitholders the total income from dividends, interest and securities lending, net of expenses and its net realized taxable capital gains.

As at December 31, 2019, the Fund had capital losses in the amount of approximately \$24,000 (2018: nil) which are available to carry-forward indefinitely and can be used to offset future taxable capital gains that are allocated to unitholders. No asset related to these losses has been recognized in the financial statements.



12. Risks associated with financial instruments

Analysis of risk management

In accordance with its investment policy, the Fund's investment objective is to optimize returns by building a well-diversified bond portfolio, without taking undue risk of loss or impairment. The portfolio consists generally of Canadian bonds and money market securities, but can also include, on a lesser scale, equities, foreign bonds and foreign pay bonds. In order to minimize the risks associated with financial instruments, the Manager applies a strategy of diversification across issuers, economic regions and industrial sectors.

Credit risk

The Fund's maximum exposure to credit risk is the fair value of debt securities included in investments, as well as interest, dividends and other receivables presented on the statements of financial position.

The majority of the credit risk to which the Fund is exposed to arises from its investments in debt securities. The Manager is of the opinion that the credit risk associated with these investments in debt securities is limited given that the Fund invests in issuers with high credit ratings. The Fund holds bonds for which the credit rating breakdown is as follows:

Bonds by credit rating	2019 % of net assets	2018 % of net assets
AAA	18.49	20.37
AA	9.53	28.41
A	38.93	32.44
BBB	7.75	5.03
BB	-	0.58

Credit ratings attributed to money market securities are not presented above since the related credit risk is insignificant given their short-term maturities.

The credit risk associated with securities lending transactions is considered minimal given the nature and the value of the collateral held by the Fund in connection with these transactions.

The risk of default on transactions with counterparties related to investments is considered minimal since the transaction would fail if either party did not fulfill its obligation.

Liquidity risk

The Fund's units are redeemable at the option of the holder thereby exposing the Fund to liquidity risk. Although the Fund is exposed to redemptions of units, liquidity risk is mitigated by the fact that the majority of its assets consists of investments traded on a stock exchange or an organized market, which can be readily liquidated. In addition, at the Manager's discretion, the Fund may pay the redemptions in securities instead of cash.



12. Risks associated with financial instruments (continued)

Market risks

For the disclosure of market risks, IFRS requires that a sensitivity analysis be presented showing the effects of reasonable possible changes in relevant risk variables on the value of net assets attributable to holders of redeemable units.

The Manager considers that this sensitivity analysis, showing the impact on the value of financial instruments from changes in the market, is based on a highly unlikely assumption that all other variables remain constant. Moreover, considering the many interrelationships between the various components of market risk, the Manager is of the opinion that it is not possible to quantify the impact of market fluctuations due to the interdependence of these components. Consequently, in practice, actual results may differ from the sensitivity analyses presented below and differences could be material.

Price risk

Given the uncertainty regarding the investments' future prices, the Fund is exposed to the inherent risk associated with fluctuations in the market. Consequently, the maximum risk to which the Fund is exposed corresponds to the fair value of its investments.

The Manager's best estimate of the upward or downward impact on the Fund's investments and net assets as a result of reasonable probable changes in benchmark indices, with all other variables being equal, is as follows:

Benchmark indices	Changes in %	2019 Impact \$	2018 Impact \$
FTSE Canada 91 Day TBill Total Return Index	0.25	14,000	4,000
FTSE Canada Universe Bond Total Return Index	1.00	175,000	122,000

Currency risk

The Fund is not exposed to significant currency risk given the small proportion of its investments in foreign securities.

Interest rate risk

The Fund is exposed to interest rate risk primarily on its bonds with maturity dates as follows:

Bonds by maturity date	2019 \$	2018 \$
Less than 1 year	4,161,920	3,022,308
1 to 5 years	12,653,148	8,579,389
5 to 10 years	528,759	458,825
Total	17,343,827	12,060,522

An increase or decrease of 1% in interest rates, with all other variables being equal, would have resulted in a downward or upward variation of the Fund's investments and net assets in the amount of \$335,000 (2018: \$238,000). Interest rate fluctuations have an insignificant impact on money market securities given their short-term maturities.

The Fund's investments in equities are also exposed to interest rate risk. This is due to the fact that their value is dependent on the rate used in discounting future dividends and to the general effect from changes in interest rates on the economy as a whole, the availability of credit and the profitability of companies. The Manager believes that it is not possible to quantify the impact of the variations taking into account the interdependence of these components.



13. Information on fair value of financial instruments

The financial instruments measured at fair value are classified according to a hierarchy which includes three levels, reflecting the reliability of the inputs involved in the fair value determination:

- Level 1: financial instruments for which the fair value is determined using quoted prices in active markets;
- Level 2: financial instruments for which the fair value is determined using pricing models based on market observable inputs;
- Level 3: financial instruments for which the fair value is determined using pricing models based on market unobservable inputs.

The investments held by the Fund and measured at fair value are classified as follows:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
2019				
Equities	166,662	-	-	166,662
Bonds	12,276,822	5,067,005	-	17,343,827
Money market securities	5,622,894	-	-	5,622,894
	18,066,378	5,067,005	-	23,133,383
2018				
Equities	181,816	-	-	181,816
Bonds	8,990,711	3,069,811	-	12,060,522
Money market securities	1,583,721	-	-	1,583,721
	10,756,248	3,069,811	-	13,826,059

No investments were transferred within the levels during the years ended December 31, 2019 and 2018.

The financial instruments not measured at fair value through profit or loss are short term financial assets and liabilities whose carrying amounts approximate fair value.

14. Subsequent event

The COVID-19 outbreak during the first quarter of 2020 has caused persistent volatility in the global economy and the financial markets. However, as at the issuance date of these financial statements, the fair value of the Fund's investments and the net assets attributable to holders of redeemable units have not been adversely affected.

15. Filing exemption for financial statements

The Fund has advised the CSA that it is exempt under section 2.11 of NI 81-106 from annual filing requirements to the Canadian regulation authorities since all the requirements have been met.