

Financial Statements of

**MAXAM DIVERSIFIED
STRATEGIES FUND**

Years ended December 31, 2014 and 2013



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Maxam Diversified Strategies Fund

We have audited the accompanying financial statements of Maxam Diversified Strategies 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.

The Manager's Responsibility for the Financial Statements

The Manager 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 the Manager 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 the Manager, 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 Maxam Diversified Strategies 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 Accountants

March 27, 2015
Vancouver, Canada

MAXAM DIVERSIFIED STRATEGIES FUND

Statements of Financial Position

	Notes	December 31, 2014	December 31, 2013	January 1, 2013
Assets				
Cash		\$ 9,156,213	\$ 2,514,156	\$ 1,104,761
Dividends and interest receivable		34,743	16,513	8,390
Subscriptions receivable		405,699	33,300	-
Derivatives		236,800	37,406	17,370
Investments		17,596,748	7,956,901	6,372,304
		\$ 27,430,203	\$ 10,558,276	\$ 7,502,825
Liabilities				
Redemptions payable		\$ -	\$ -	\$ 24,233
Management fees payable	4	39,534	18,014	13,839
Performance fees payable	4	66,022	153,201	480
Accrued liabilities and other accounts payable		11,712	4,517	3,459
		117,268	175,732	42,011
Net assets attributable to holders of redeemable units		\$ 27,312,935	\$ 10,382,544	\$ 7,460,814
Net assets attributable to holders of redeemable units by series:				
Series A - Master sub-series		\$ 12,859,975	\$ 9,746,149	\$ 1,710,724
Series A - January 2011 sub-series		-	-	472,881
Series A - February 2011 sub-series		-	-	138,757
Series A - March 2011 sub-series		-	-	27,528
Series A - April 2011 sub-series		-	-	46,537
Series A - July 2011 sub-series		-	-	514,731
Series A - September 2011 sub-series		-	-	4,238,999
Series A - May 2012 sub-series		-	-	52,669
Series A - December 2012 sub-series		-	-	75,000
Series A - August 2014 sub-series		126,170	-	-
Series A - November 2014 sub-series		317,114	-	-
Series A - December 2014 sub-series		251,000	-	-
Series A2 - September 2014 sub-series		3,071,095	-	-
Series A2 - October 2014 sub-series		5,105,324	-	-
Series B - Master sub-series		269,010	226,762	-
Series B - October 2011 sub-series		-	-	76,056
Series B - November 2011 sub-series		-	-	106,932
Series C		1,973,117	340,633	-
Series F		3,340,130	69,000	-
		\$ 27,312,935	\$ 10,382,544	\$ 7,460,814

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

MAXAM DIVERSIFIED STRATEGIES FUND

Statements of Financial Position (Continued)

Notes	December 31, 2014	December 31, 2013	January 1, 2013
Net assets attributable to holders of redeemable units per unit (continued):			
Series A - Master sub-series	\$ 20.03	\$ 16.88	\$ 13.19
Series A - January 2011 sub-series	-	-	9.38
Series A - February 2011 sub-series	-	-	9.26
Series A - March 2011 sub-series	-	-	9.18
Series A - April 2011 sub-series	-	-	9.31
Series A - July 2011 sub-series	-	-	10.29
Series A - September 2011 sub-series	-	-	10.53
Series A - May 2012 sub-series	-	-	10.53
Series A - December 2012 sub-series	-	-	10.00
Series A - August 2014 sub-series	10.09	-	-
Series A - November 2014 sub-series	10.01	-	-
Series A - December 2014 sub-series	10.00	-	-
Series A2 - September 2014 sub-series	10.20	-	-
Series A2 - October 2014 sub-series	10.19	-	-
Series B - Master sub-series	11.86	10.00	-
Series B - October 2011 sub-series	-	-	10.87
Series B - November 2011 sub-series	-	-	10.73
Series C	14.33	12.23	-
Series F	13.95	11.83	-

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

Approved by Maxam Capital Management Ltd., in its capacity as Manager:

"Travis Dowle" Director

"Johnny Ciampi" Director

MAXAM DIVERSIFIED STRATEGIES FUND

Statements of Comprehensive Income

Years ended December 31, 2014 and 2013

	Notes	2014	2013
Investment income:			
Dividends		\$ 157,373	\$ 83,535
Interest		24,722	19,808
Other income		7,247	-
Foreign exchange gain		5,594	12,525
Change in fair value of investments:	5		
Net realized gain		1,859,064	975,455
Net change in unrealized appreciation		1,144,904	1,375,247
		3,198,904	2,466,570
Expenses:			
Performance fees	4	427,461	273,318
Management fees	4	277,056	170,751
Professional and administration fees		91,102	63,332
GST expense		40,119	29,214
Income taxes		29,765	-
Withholding taxes		389	58
Interest expense on securities sold short		-	107
Total expenses, before waived expenses		865,892	536,780
Expenses waived by Manager		(15,189)	(20,586)
Total expenses		850,703	516,194
Increase in net assets attributable to holders of redeemable units			
		\$ 2,348,201	\$ 1,950,376
Increase in net assets attributable to holders of redeemable units per sub-series:			
Series A - Master sub-series		\$ 1,889,991	\$ 1,862,924
Series A - August 2014 sub-series		1,170	-
Series A - November 2014 sub-series		210	-
Series A2 - September 2014 sub-series		71,095	-
Series A2 - October 2014 sub-series		105,324	-
Series B - Master sub-series		42,248	43,774
Series C		103,122	33,978
Series F		135,041	9,700
		\$ 2,348,201	\$ 1,950,376

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

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Comprehensive Income (Continued)

Years ended December 31, 2014 and 2013

	Notes	2014	2013
Increase in net assets attributable to holders of redeemable units per unit (continued):			
Series A - Master sub-series		\$ 3.25	\$ 2.62
Series A - August 2014 sub-series		0.09	-
Series A - November 2014 sub-series		0.01	-
Series A2 - September 2014 sub-series		0.24	-
Series A2 - October 2014 sub-series		0.21	-
Series B - Master sub-series		1.86	2.58
Series C		1.84	2.51
Series F		1.92	2.24

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

MAXAM DIVERSIFIED STRATEGIES FUND

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

Years ended December 31, 2014 and 2013

Series A	2014	2013
Balance, beginning of year	\$ 9,746,149	\$ 7,277,826
Increase in net assets from operations	2,067,790	1,862,924
Distribution to unitholders	(21,948)	-
Reinvestment of distributions	21,948	-
Capital transactions, proceeds from units issued	11,419,903	725,001
Capital transactions, payment on redemptions	(1,503,164)	(119,602)
Balance, end of year	\$ 21,730,678	\$ 9,746,149

Series B	2014	2013
Balance, beginning of year	\$ 226,762	\$ 182,988
Increase in net assets from operations	42,248	43,774
Capital transactions, proceeds from units issued	-	-
Capital transactions, payment on redemptions	-	-
Balance, end of year	\$ 269,010	\$ 226,762

Series C	2014	2013
Balance, beginning of year	\$ 340,633	\$ -
Increase in net assets from operations	103,122	33,978
Capital transactions, proceeds from units issued	1,574,312	306,655
Capital transactions, payment on redemptions	(44,950)	-
Balance, end of year	\$ 1,973,117	\$ 340,633

Series F	2014	2013
Balance, beginning of year	\$ 69,000	\$ -
Increase in net assets from operations	135,041	9,700
Capital transactions, proceeds from units issued	3,136,089	59,300
Capital transactions, payment on redemptions	-	-
Balance, end of year	\$ 3,340,130	\$ 69,000
Total net assets attributable to holders of redeemable units, end of year	\$ 27,312,935	\$ 10,382,544

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

MAXAM DIVERSIFIED STRATEGIES FUND

Statements of Cash Flows

Years ended December 31, 2014 and 2013

	Notes	2014	2013
Cash provided by (used in):			
Operating activities:			
Increase (decrease) in net assets attributable to holders of redeemable units		\$ 2,348,201	\$ 1,950,376
Adjustments for:			
Net realized gain from investments		(1,859,064)	(975,455)
Net change in unrealized appreciation		(1,144,904)	(1,375,247)
Transaction costs on purchase and sale of investments		(118,159)	(69,788)
Purchase of investments		(27,363,310)	(12,312,441)
Proceeds from sale of investments		20,646,196	13,128,298
Dividend and interest income		(182,095)	(103,343)
Dividends and interest received		163,865	95,220
Change in subscriptions receivable		(372,399)	(33,300)
Change in redemptions payable		-	(24,233)
Change in management fees payable		21,520	4,175
Change in performance fees payable		(87,179)	152,721
Change in accrued liabilities and other accounts payable		7,195	1,058
		(7,940,133)	438,041
Financing activities:			
Proceeds from issue of redeemable units		16,130,304	1,090,956
Payments on redemption of redeemable units		(1,548,114)	(119,602)
		14,582,190	971,354
Increase in cash		6,642,057	1,409,395
Cash, beginning of year		2,514,156	1,104,761
Cash, end of year		\$ 9,156,213	\$ 2,514,156

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

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Years ended December 31, 2014 and 2013

1. Reporting entity:

Maxam Diversified Strategies Fund (the "Fund") is a unit trust domiciled in Canada and was established by a Master Trust Agreement dated September 26, 2008 and last amended and restated on November 29, 2011. The Fund was established on December 19, 2008 and commenced operations on July 1, 2009. The address of the Fund's registered office is at 902 - 510 Burrard Street, British Columbia, Canada, V6C 3A8.

Maxam Capital Management Ltd. (the "Manager") is the manager and portfolio advisor of the Fund. Valiant Trust Company (the "Trustee") has been appointed trustee of the Fund. The Trustee has delegated its responsibilities to the Manager in accordance with the Master Trust Agreement.

TD Securities Inc. ("TDSI"), in its role as prime broker for the Fund, holds the Fund's securities as collateral rather than under a custodial arrangement. However, TDSI is required to segregate and hold in trust all the Fund's securities that are fully paid for or otherwise represent excess margin.

2. Basis of preparation:

(a) Statement of compliance:

The financial statements of the Fund have been prepared in compliance with International Financial Reporting Standards ("IFRS"). This is the first time that the Fund has prepared its financial statements in accordance with IFRS, and IFRS 1 (First – Time Adoption of International Financial Reporting Standards) has been applied. The Fund previously prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). Details of transition from Canadian GAAP to IFRS are provided in note 11. The financial statements were authorized for issue by the Manager on March 27, 2015.

(b) Basis of measurement:

The financial statements have been prepared on a historical cost basis except for investments and derivatives, which are measured at fair value.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgment:

The preparation of financial statements in conformity with IFRS requires the Manager to make 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 in the period in which the estimates are revised and in any future period affected.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Years ended December 31, 2014 and 2013

3. Significant accounting policies:

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

(a) Financial instruments:

(i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: held-for-trading, fair value through profit or loss ("FVTPL"), available-for-sale, loans and receivables, assets held-to-maturity, and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as held-for-trading or fair value through profit or loss in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities held for trading or at fair value through profit or loss are recognized initially 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. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Fund has not classified any of its financial instruments as available-for-sale or assets held to maturity.

(ii) Held-for-trading and fair value through profit and loss:

Financial instruments classified as held-for-trading or FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statement of comprehensive income in the period in which they occur. The Fund's derivative financial assets and derivative financial liabilities are classified as held-for-trading. The Fund's investments in securities are designated as FVTPL.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that 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 specific facts and circumstances. 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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(ii) Held-for-trading and fair value through profit and loss (continued):

The fair value of financial assets and liabilities that are not traded in an active market, including derivative instruments, is determined using valuation techniques. Valuation techniques also include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

(iii) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of loans and receivables is at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate. The Fund classifies cash, dividends and interest receivable and subscriptions receivable as loans and receivables.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iv) Other financial liabilities:

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Fund's other financial liabilities are comprised of redemptions payable, management fees payable, performance fees payable and accrued liabilities and other accounts payable.

(b) Redeemable units:

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The redeemable units, which are classified as financial liabilities and measured at redemption amount, provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Fund's valuation policies at each redemption date.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

(c) Foreign exchange:

The financial statements of the Fund are denominated in Canadian dollars. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the statement of comprehensive income.

(d) Income recognition:

Interest income is recognized on an accrual basis using the effective interest method. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

(e) Income and expense allocation:

Realized gains/losses, changes in unrealized gains (losses) on investments, income and expenses that are common to the Fund as a whole are allocated daily to each series based on the proportionate share of the net asset value of the series. The proportionate share of each series is determined by adding the current day's net unitholder subscriptions of the series to the prior day's net asset value of the series. Any income or expense amounts that are unique to a particular series (for example, management fees) are accounted for separately in that particular series so as not to affect the net asset value of the other series.

(f) Income taxes:

The Fund qualifies as a unit trust under the Income Tax Act (Canada). All of 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.

(g) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for period ended December 31, 2014, and have not been applied in preparing these financial statements. None of these will have a significant effect on the financial statement of the Fund, with the possible exception of IFRS 9, *Financial Instruments*.

The IFRS 9 deals with recognition, derecognition, classification and measurement of financial statements and its requirements and represent a significant change from the existing requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

(g) New standards and interpretations not yet adopted (continued):

The effective date of this standard is for periods beginning January 1, 2018, but early adoption is permitted. The Fund's Manager is currently in the process of evaluating the potential effect of this standard. The standard is not expected to have a significant impact on the financial statements since the Fund's financial assets are currently measured at fair value or amortized cost.

4. Related party transactions:

(a) Management fees:

In consideration for management services, pursuant to the Master Trust Agreement, the Fund pays the Manager management fees at the annualized rates shown below (exclusive of GST charged thereon). The fees are calculated and paid monthly, based on the net asset value of the respective series of units of the Fund on the last business day of the month. The management fee is calculated prior to, and without taking into account, any performance fees payable to the Manager.

Series A	2%
Series B	2%
Series C	2%
Series F	1%

The management fee for Series I units is negotiated with the Manager by individual Series I unitholders and paid directly by each unitholder, outside the Fund.

(b) Performance fees:

In addition to the management fee payable in respect of each series of units, the Manager is entitled to receive performance fees for its services as portfolio advisor.

Series A and Series B:

The performance fee is equal to 20% of the increase in the net asset value of each sub-series of Series A and Series B units over the relevant period in excess of a 5% annualized minimum increase, subject to a quarterly high watermark that ensures any decline in the net asset value of each sub-series below the high watermark has to be recouped before performance fees will be charged in respect of the sub-series in any subsequent period. The high watermark for a sub-series is the greater of:

- (i) the purchase price of the sub-series; and
- (ii) if a performance fee has been paid in respect of the sub-series, the net asset value of the sub-series on the last date on which a performance fee was so paid.

Performance fees are calculated and accrued monthly and paid to the Manager quarterly.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Years ended December 31, 2014 and 2013

4. Related party transactions (continued):

(b) Performance fees (continued):

Immediately following payment of performance fees to the Manager, the Manager may redesignate outstanding sub-series of a series as units of that same series (for example, by redesignating all outstanding sub-series of Series A units as Series A units), provided that all such redesignated sub-series are valued at their high watermark. This redesignation will occur on a pro-rata basis, based on the relative net asset value of each applicable sub-series.

Series C and Series F:

The Fund will pay a performance fee equal to 20% of the increase in the net asset value of Series C and Series F units over the previous high watermark for each applicable series of units. The performance fee for Series C and Series F units is accrued monthly and is payable for each calendar quarter end, provided that the high watermark is exceeded, as referred to below. Upon the redemption of Series C or Series F units, the accrued portion of the performance fee allocated to the redeemed units will be payable by the Fund following the end of the month in which the units were redeemed.

The highest quarter-end net asset value per unit for Series C and Series F units from time to time establishes a high watermark for Series C and Series F units which must be exceeded in subsequent quarters for the performance fee applicable to Series C and Series F units to be payable.

Series I:

The performance fee for Series I units is negotiated by the Manager with individual Series I unitholders and is paid directly by each unitholder, outside the Fund.

(c) Unit holdings:

The Manager, its officers and directors invest in units of the Fund from time to time in the normal course of business. All transactions with the Manager, its offices and Directors are measured at the exchange amounts. At December 31, 2014, 2,269 Series A units (2013 - 856 Series A units), 22,673 Series B units (2013 - 22,673 Series B Units) and 24,317 Series C units (2012 - 11,969), of the Fund were owned by the Manager, or its officers and directors.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Years ended December 31, 2014 and 2013

5. Net gain (loss) from financial instruments at fair value through profit or loss:

Net gain (loss) from the Fund's investments and derivatives as reflected in the Fund's statement of comprehensive income is set out below:

	2014	2013
Net gain (loss) from financial instruments held for trading:		
Derivative financial instruments	\$ 199,394	\$ 20,006
Net gain (loss) from financial assets designated as at fair value through profit or loss:		
Investments	2,804,574	2,343,221
	<u>\$ 3,003,968</u>	<u>\$ 2,363,227</u>
Net gain (loss) from financial instruments at fair value through profit or loss:		
Realized	\$ 1,859,064	\$ 987,980
Unrealized	1,144,904	1,375,247
	<u>\$ 3,003,968</u>	<u>\$ 2,363,227</u>

6. Redeemable units:

The Master Trust Agreement authorizes the Fund to issue an unlimited number of units in one or more classes or series. Units have no nominal or par value. The Fund currently has five series of units: Series A, Series B Series C, Series F and Series I. Series A units are available to investors who purchase units directly from the Manager. Series B, C and F units are available to investors who purchase units through authorized brokers or dealers. Series I units are available only to institutional investors or certain other investors who have entered into a separate agreement with the Manager. Each series of unit can be further subdivided into sub-series to enable the Manager to better track the performance of units purchased on a particular date.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Years ended December 31, 2014 and 2013

6. Redeemable units (continued):

The following units were issued or redeemed during the year:

2014					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series A - Master	577,327	-	(80,298)	145,112	642,141
Series A - February 2014	-	6,000	-	(6,000)	-
Series A - March 2014	-	3,000	-	(3,000)	-
Series A - May 2014	-	117,500	-	(117,500)	-
Series A - June 2014	-	10,000	-	(10,000)	-
Series A - July 2014	-	35,000	-	(35,000)	-
Series A - August 2014	-	12,500	-	-	12,500
Series A - September 2014	-	73,600	-	(73,600)	-
Series A - October 2014	-	27,600	-	(27,600)	-
Series A - November 2014	-	31,690	-	-	31,690
Series A - December 2014	-	25,100	-	-	25,100
Series A - September 2014	-	300,945	-	-	300,945
Series A2 - October 2014	-	501,214	-	-	501,214
Balance, end of year	577,327	1,144,149	(80,298)	(127,588)	1,513,590

2014					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series B - Master	22,673	-	-	-	22,673

2014					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series C	27,857	113,028	(3,170)	-	137,715

2014					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series F	5,834	233,606	-	-	239,440

6. Redeemable units (continued):

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Years ended December 31, 2014 and 2013

The following units were issued or redeemed during the year (continued):

2014					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series B - Master	22,673	-	-	-	22,673
2014					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series C	27,857	113,028	(3,170)	-	137,715
2014					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series F	5,834	233,606	-	-	239,440
2013					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series A - Master	129,726	11,849	-	435,752	577,327
Series A - January 2011	50,400	-	(2,015)	(48,385)	-
Series A - February 2011	14,986	-	(4,986)	(10,000)	-
Series A - March 2011	3,000	-	-	(3,000)	-
Series A - April 2011	5,000	-	(5,000)	-	-
Series A - July 2011	50,000	-	-	(50,000)	-
Series A - September 2011	402,500	-	-	(402,500)	-
Series A - May 2012	5,000	-	-	(5,000)	-
Series A - December 2012	7,500	-	-	(7,500)	-
Series A - September 2013	-	2,500	-	(2,500)	-
Series A - October 2013	-	35,000	-	(35,000)	-
Series A - November 2013	-	15,000	-	(15,000)	-
Balance, end of year	668,112	64,349	(12,001)	(143,133)	577,327

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6. Redeemable units (continued):

2013					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series B - Master	-	-	-	22,673	22,673
Series B - October 2011	7,000	-	-	(7,000)	-
Series B - November 2011	9,963	-	-	(9,963)	-
Balance, end of year	16,963	-	-	5,710	22,673

2013					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series C	-	27,857	-	-	27,857

2013					
Series	Opening	Units issued	Units redeemed	Transfers	Closing
Series F	-	5,834	-	-	5,834

There were no Series I units issued or redeemed during 2014 or 2013.

7. Capital management:

The redeemable units issued by the Fund represent the capital of the Fund. The Fund is not subject to any internally or externally imposed restrictions on its capital. The Fund's objectives in managing the redeemable units are to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions.

8. Financial risk management:

(a) Risk management framework:

The Fund's investment activities expose it to a variety of financial risks. The Fund's exposures to financial risks are concentrated in its investment holdings. Significant risks that are relevant to the Fund are discussed below.

The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by daily monitoring of the Fund's positions and market events, by diversifying the investment portfolio within the constraints of the investment objective, and periodically may use derivatives to hedge certain risk exposures. To assist in managing risks, the Manager also uses internal guidelines that identify the target exposures 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 strategies, internal guidelines, and securities regulations.

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8. Financial risk management (continued):

(b) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As at December 31, 2014 and 2013, the Fund was not exposed to significant credit risk as the Fund's investments consist primarily of exchange traded securities, where credit risk is guaranteed by the exchange, and investments not available in an active market comprised only 0.1% (2013 – 0.5%) of total net assets.

(c) Liquidity risk:

Liquidity risk is the risk that the Fund may not be able to meet its financial obligations as they fall due. The Fund is exposed to monthly cash redemptions of redeemable units. In accordance with its investment objectives, the Fund maintains a significant amount of its assets in liquid investments, such that these can be readily disposed of to fund payment of obligations and redemptions of redeemable units. The Fund's non-derivative liabilities are due within three months of the year end of the Fund.

(d) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Fund's income or the fair value of its holdings of financial instruments.

The Manager aims to manage the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Fund's holdings, market events and overall economic conditions.

(i) Interest rate risk:

Interest rate risk is the risk that the fair value of the Fund's interest-bearing investments will fluctuate due to changes in prevailing interest rates. The longer the term to maturity, all else being equal, the more sensitive a security is to interest rate risk. Other assets and liabilities are short-term in nature and non-interest bearing.

As at December 31, 2014, the Fund was not exposed to significant interest rate risk as it did not hold interest sensitive assets (2013 – 1% of total assets were interest sensitive).

(ii) Currency risk:

Currency risk is the risk that the value of financial instruments denominated in currencies other than the functional currency of the Fund will fluctuate due to changes in foreign exchange rates. The Fund may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currency. As at December 31, 2014, the Fund held investments of \$1,236,901 (2013 - \$256,864) in U.S. dollars.

As at December 31, 2014, if the Canadian dollar had strengthened or weakened by 5% in relation to all currencies, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$61,845 (2013 - \$12,843). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

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Notes to Financial Statements

Years ended December 31, 2014 and 2013

8. Financial risk management (continued):

(d) Market risk (continued):

(iii) Other price risk:

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market. The Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The Fund's investment portfolio is monitored on a daily basis by the Manager. Except for written options and securities sold short, the maximum risk resulting from financial instruments is equivalent to their fair values as set forth in the Fund's statement of net assets. Possible losses from written options and securities sold short can be unlimited.

The following table summarizes the Fund's exposure to other price risk as at December 31, 2014 and 2013, by providing the market sector breakdown of investments.

	2014	2013
Communications	\$ -	\$ 445,725
Energy	2,019,905	635,250
Consumer, non-cyclical	2,709,784	765,350
Technology	4,024,808	2,513,041
Financials	1,981,611	528,540
Basic materials	1,125,970	334,400
Consumer, cyclical	680,940	2,409,972
Health care	1,003,433	227,810
Industrial	4,068,407	81,000
Utilities	218,690	-
	<u>\$ 17,833,548</u>	<u>\$ 7,941,088</u>

For the Fund, the most significant exposure to other price risk arises from its investment in equity securities. As at December 31, 2014, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$1,783,355 (2013 - \$794,109), approximately 6.53% of net assets (2013 - 7.65%). In practice, the actual trading results may differ and the difference could be material.

9. Fair value of financial instruments:

(a) Valuation models:

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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9. Fair value of financial instruments:

(a) Valuation models (continued):

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

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs that are unobservable.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Fund uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as warrants that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed equity or debt securities, exchange-traded derivatives and simple OTC derivatives such as forward rate agreements. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Fund uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Fund believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Fund and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa, such as forward rate agreements, fair values include adjustment for both own credit risk and counterparty credit risk.

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Years ended December 31, 2014 and 2013

9. Fair value of financial instruments (continued):

(a) Valuation models (continued):

Model inputs and values are calibrated against historical data and published forecasts and, when possible, against current or recent observed transactions and broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management judgment is required to select the most appropriate point in the range.

(b) Fair value hierarchy – financial instruments measured at fair value:

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

All fair value measurements below are recurring.

2014	Level 1	Level 2	Level 3	Total
Equities	\$ 16,796,348	\$ 800,400	\$ -	\$ 17,596,748
Bonds	-	-	-	-
Warrants	-	236,800	-	236,800
Total	\$ 16,796,348	\$ 1,037,200	\$ -	\$ 17,833,548

2013	Level 1	Level 2	Level 3	Total
Equities	\$ 7,748,326	\$ 98,000	\$ 12,500	\$ 7,858,826
Bonds	98,075	-	-	98,075
Warrants	-	37,406	-	37,406
Total	\$ 7,846,401	\$ 135,406	\$ 12,500	\$ 7,994,307

For the year ended December 31, 2013, the Level 2 equity investment was valued based on a quoted market prices in an active market discounted due to a sale restriction. The Level 2 warrants were valued based on the Black Scholes model.

The carrying amount of the Fund's net assets attributable to redeemable units also approximates fair value as they are measured at the redemption amount and are classified as Level 2 in the fair value hierarchy.

For the year ended December 31, 2014, there were no transfers between investments categorized as Levels 1 and 2.

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9. Fair value of financial instruments (continued):

(b) Fair value hierarchy – financial instruments measured at fair value (continued):

Reconciliation of the opening balance to the ending balance for instruments categorized as Level 3:

	2014	2013
Opening balance	\$ 12,500	\$ 35,000
Sales	(12,500)	(10,000)
Purchases	-	-
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Total gains or losses recognized in profit or loss	-	(12,500)
	\$ -	\$ 12,500

(c) Significant unobservable inputs used in measuring fair value:

The valuation process including a description of unobservable inputs as well as a sensitivity analysis of changes to the unobservable inputs used by the Manager to value the Level 3 investment has not been disclosed as the investment is not considered material.

(d) Financial instruments not measured at fair value:

The carrying value of cash, dividend and interest receivable, subscriptions receivable, redemptions payable, management fees payable, performance fees payable and accrued liabilities and other accounts payable approximates their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.

10. Income taxes:

The Fund has non-capital losses available for utilization against taxable income in future years of nil (2013 - \$288,000).

The Fund has no capital losses available to be carried forward at December 31, 2014 (2013 - \$68,000). Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years.

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11. Transition to IFRS:

The nature and the effect of the Fund's transition to IFRS is summarized below.

(a) Transition elections:

The only voluntary exemption adopted by the Fund upon transition was the ability to designate a financial asset or financial liability at "FVTPL" upon transition to IFRS. All financial assets designated at FVTPL upon transition were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, *Investment Companies*, accordingly no adjustments to measurement were required.

(b) Statement of cash flows:

Under Canadian GAAP, the Fund was exempt from providing a statement of cash flows. IAS 1 requires that a complete set of financials include a statement of cash flows for the current and comparative periods, without exception. Accordingly the Fund has presented the required statement of cash flows.

(c) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS:

	December 31, 2013	January 1, 2013
Equity		
Equity as reported under Canadian GAAP	\$ 10,329,325	\$ 7,410,650
Revaluation of investments at FVTPL (refer to note (e) below)	53,219	50,164
Net assets attributable to holders of redeemable units	\$ 10,382,544	\$ 7,460,814

Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS (continued):

	Year ended December 31, 2013
Comprehensive income	
Comprehensive income as reported under Canadian GAAP	\$ 1,947,321
Revaluation of investments at FVTPL (refer to note (e) below)	3,055
Increase in net assets attributable to holders of redeemable units	\$ 1,950,376

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

On transition to IFRS, the Manager has reassessed whether the Funds' units meet the criteria in IAS 32 for classification as equity. Under Canadian GAAP, the Fund accounted for its redeemable units as equity. Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Funds' units do not meet the criteria in IAS 32 for classification as equity and therefore, have been reclassified as financial liabilities on transition to IFRS.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Years ended December 31, 2014 and 2013

11. Transition to IFRS (continued):

(e) Revaluation of investments at FVTPL:

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, *Financial Instruments - Recognition and Measurement*, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Fund measures the fair values of its investments using the guidance in IFRS 13, *Fair Value Measurement*, (IFRS 13), which requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value.

It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, upon adoption of IFRS an adjustment was recognized to increase the carrying amount of the Fund's investments by \$50,164 as at January 1, 2013 and \$53,219 at December 31, 2013. The impact of this adjustment was to increase the Fund's increase in net assets attributable to holders of redeemable units by \$3,055 for the year ended December 31, 2013.