

Financial Statements of

**MAXAM DIVERSIFIED
STRATEGIES FUND**

Year ended December 31, 2016



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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 statement of financial position as at December 31, 2016, the statement of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year ended December 31, 2016, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our audit 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, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 27, 2017
Vancouver, Canada

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	Notes	2016	2015
Assets			
Current assets:			
Cash		\$ 20,892,907	\$ 18,741,205
Dividends and interest receivable		78,658	37,725
Subscriptions receivable		1,097,830	77,720
Derivatives		548,114	69,250
Investments		52,545,715	29,903,711
		75,163,224	48,829,611
Liabilities			
Current liabilities:			
Redemptions payable		68,055	48,698
Management fees payable	4	88,485	64,176
Performance fees payable	4	401,180	3,703
Accrued liabilities and other accounts payable		15,655	14,146
Investments sold short		2,012,300	1,505,925
		2,585,675	1,636,648
Net assets attributable to holders of redeemable units		\$ 72,577,549	\$ 47,192,963
Net assets attributable to holders of redeemable units by series:			
Series A - Master sub-series		\$ 32,291,913	\$ 17,258,101
Series A - August 2014 sub-series		-	-
Series A - November 2014 sub-series		-	-
Series A - December 2016 sub-series		600,000	-
Series A2 - September 2014 sub-series		4,916,538	3,287,963
Series A2 - October 2014 sub-series		-	5,465,835
Series A2 - April 2015 sub-series		5,748,249	4,960,527
Series A - May 2015 sub-series		-	1,955,734
Series A - June 2015 sub-series		-	845,989
Series A - July 2015 sub-series		-	297,217
Series A - August 2015 sub-series		-	490,434
Series A - October 2015 sub-series		-	298,522
Series A - November 2015 sub-series		-	20,474
Series B - Master Sub-series		324,833	283,933
Series C		6,250,421	4,556,704
Series F		12,986,770	7,471,530
Series I - May 2016 sub-series		6,310,761	-
Series I - November 2016 sub-series		3,148,064	-
		\$ 72,577,549	\$ 47,192,963

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Financial Position (continued)

December 31, 2016, with comparative information for 2015

	Notes	2016	2015
Net assets attributable to holders of redeemable units per unit:			
Series A - Master sub-series		\$ 24.18	\$ 21.14
Series A - December 2016 sub-series		10.00	-
Series A2 - September 2014 sub-series		12.30	10.77
Series A2 - October 2014 sub-series		-	10.75
Series A2 - April 2015 sub-series		11.27	9.85
Series A - May 2015 sub-series		-	9.68
Series A - June 2015 sub-series		-	9.72
Series A - July 2015 sub-series		-	9.91
Series A - August 2015 sub-series		-	10.32
Series A - October 2015 sub-series		-	10.29
Series A - November 2015 sub-series		-	10.24
Series B - Master Sub-series		14.33	12.52
Series C		16.90	15.01
Series F		16.75	14.77
Series I - May 2016 sub-series		11.27	-
Series I - November 2016 sub-series		10.59	-

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

Approved on behalf of Maxam Capital Management Ltd.:

"Johnny Ciampi"

Director

"Travis Dowle"

Director

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Comprehensive Income

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

	Notes	2016	2015
Investment income:			
Dividends		\$ 619,369	\$ 412,515
Interest income		115,972	59,667
Other income		503	325
Capital gains distributions		46,250	-
Foreign exchange gain (loss)		27,444	115,174
Other changes in fair value of investments:	5		
Net realized gain (loss) on sale of investments		1,544,074	(162,564)
Net change in unrealized appreciation		7,445,858	2,614,809
		<u>9,799,470</u>	<u>3,039,926</u>
Expenses:			
Management fees	4	845,134	619,456
Performance fees	4	767,035	489,046
Income taxes		-	100,847
Professional and administration fees		74,676	94,825
Withholding taxes		-	360
Dividend expense		38,100	17,950
GST expense		88,340	62,033
		<u>1,813,285</u>	<u>1,384,517</u>
Expenses waived by Manager		(3,744)	(632)
		<u>1,809,541</u>	<u>1,383,885</u>
Increase in net assets attributable to holders of redeemable units		\$ 7,989,929	\$ 1,656,041
Increase in net assets attributable to holders of redeemable units:			
Series A - Master sub-series		\$ 3,546,381	\$ 820,342
Series A2 - September 2014 sub-series		628,574	216,868
Series A2 - October 2014 sub-series		226,969	360,510
Series A2 - April 2015 sub-series		787,721	(39,473)
Series A - May 2015 sub-series		-	(64,266)
Series A - June 2015 sub-series		-	(24,031)
Series A - July 2015 sub-series		-	(2,783)
Series A - August 2015 sub-series		-	15,434
Series A - October 2015 sub-series		-	8,523
Series A - November 2015 sub-series		-	475
Series B - Master Sub-series		40,900	14,923
Series C		635,594	120,239
Series F		1,228,676	229,280
Series I - May 2016 sub-series		718,003	-
Series I - November 2016 sub-series		177,111	-
		<u>\$ 7,989,929</u>	<u>\$ 1,656,041</u>

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Comprehensive Income (continued)

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

	Notes	2016	2015
Increase in net assets attributable to holders of redeemable units per unit:			
Series A - Master sub-series		\$ 1.62	\$ 1.08
Series A2 - September 2014 sub-series		1.75	0.72
Series A2 - October 2014 sub-series		0.45	0.71
Series A2 - April 2015 sub-series		1.56	(0.12)
Series A - May 2015 sub-series		-	(0.32)
Series A - June 2015 sub-series		-	(0.28)
Series A - July 2015 sub-series		-	(0.09)
Series A - August 2015 sub-series		-	0.32
Series A - October 2015 sub-series		-	0.29
Series A - November 2015 sub-series		-	0.24
Series B - Master Sub-series		1.80	0.66
Series C		1.92	0.51
Series F		2.10	0.60
Series I - May 2016 sub-series		1.27	-
Series I - November 2016 sub-series		0.59	-

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

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

Series A	2016	2015
Balance, beginning of year	\$ 34,880,796	\$ 21,730,678
Increase in net assets	5,189,645	1,291,599
Distribution to unitholders	(148,404)	(159,298)
Redeemable unit transactions:		
Proceeds from units issued	23,421,154	11,858,519
Reinvested distributions	148,404	159,298
Amounts paid on redemption of units	(19,934,895)	-
	3,634,663	12,017,818
Balance, end of year	\$ 43,556,700	\$ 34,880,796

Series B	2016	2015
Balance, beginning of year	\$ 283,933	\$ 269,010
Increase in net assets from operations	40,900	14,923
Balance, end of year	\$ 324,833	\$ 283,933

Series C	2016	2015
Balance, beginning of year	\$ 4,556,704	\$ 1,973,117
Increase in net assets from operations	635,594	120,239
Redeemable unit transactions:		
Proceeds from units issued	1,210,992	2,513,035
Amounts paid on redemption of units	(152,869)	(49,687)
	1,058,123	2,463,348
Balance, end of year	\$ 6,250,421	\$ 4,556,704

Series F	2016	2015
Balance, beginning of year	\$ 7,471,530	\$ 3,340,130
Increase in net assets from operations	1,228,676	229,280
Redeemable unit transactions:		
Proceeds from units issued	4,655,715	4,214,217
Amounts paid on redemption of units	(369,151)	(312,097)
	4,286,564	3,902,120
Balance, end of year	\$ 12,986,770	\$ 7,471,530

MAXAM DIVERSIFIED STRATEGIES FUND

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

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

Series I	2016	2015
Balance, beginning of year	\$ -	\$ -
Increase in net assets from operations	895,114	-
Redeemable unit transactions:		
Proceeds from units issued	8,692,805	-
Amounts paid on redemption of units	(129,094)	-
	8,563,711	-
Balance, end of year	\$ 9,458,825	\$ -
Total net assets attributable to holders of redeemable units, end of year	\$ 72,577,549	\$ 47,192,963

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

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Cash Flows

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

	2016	2015
Cash provided by (used in):		
Operating activities:		
Increase in net assets attributable to holders of redeemable units	\$ 7,989,929	\$ 1,656,041
Adjustments for:		
Net realized (loss) gain from investments	(1,544,074)	162,564
Net change in unrealized appreciation	(7,445,858)	(2,614,809)
Transaction costs on purchase and sale of investments	(231,767)	(204,516)
Purchase of investments	(55,606,922)	(45,861,124)
Proceeds from sale of investments	42,214,127	37,884,398
Dividend and interest income	(735,341)	(472,182)
Dividend and interest received	694,408	469,199
Change in subscriptions receivable	(1,020,110)	327,979
Change in redemptions payable	19,357	48,698
Change in management fees payable	24,310	24,642
Change in performance fees payable	397,477	(62,319)
Change in accrued liabilities and other accounts payable	1,509	2,434
	(15,242,955)	(8,638,995)
Financing activities:		
Proceeds from issue of redeemable units	37,980,666	18,585,771
Payments on redemption of redeemable units	(20,586,009)	(361,784)
	17,394,657	18,223,987
Increase in cash	2,151,702	9,584,992
Cash, beginning of year	18,741,205	9,156,213
Cash, end of year	\$ 20,892,907	\$ 18,741,205

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

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio

As at December 31, 2016

Number of shares/ par value	Description	Coupon rate %	Maturity date	Cost \$	Fair value \$	% of total
Fixed Income-Long Position:						
Energy						
150,000	Transglobe CV RD	6%	31-Mar-17	150,625	149,700	0.21
257,000	Canexus - IV CV	5.75%	31-Dec-18	237,225	259,313	0.35
243,000	Canexus - V CV RD	6%	31-Dec-20	221,586	243,608	0.34
	Total energy			609,436	652,621	0.90
Industrials						
70,800	WesternOne Inc	6.25%	30-Jun-20	35,224	48,144	0.07
	Total industrials			35,224	48,144	0.07
Information Technology						
500,000	Nanotech RST CV	12%	31-May-18	500,000	587,140	0.81
	Total information technology			500,000	587,140	0.81
	Total fixed income-long position			1,144,660	1,287,905	1.77

Number of shares/ par value	Description	Cost \$	Fair value \$	% of total
Canadian equity-long positions:				
Energy				
57,500	Crescent Point Energy Corp	991,639	1,049,375	1.45
35,000	North American Energy Partners	165,001	181,300	0.25
100,000	Savanna Energy Services Corp	195,507	210,000	0.29
300,000	Tidewater Midstream & Infrastructure Ltd.	468,000	480,000	0.66
250,000	Canexus Corp	382,364	407,500	0.56
	Total energy	2,202,511	2,328,175	3.21
Basic materials				
400,000	Bearing Resources Ltd	52,000	184,000	0.25
250,000	Bearing Resources Ltd	100,000	105,000	0.14
350,000	Conifex Timber Inc.	1,032,500	1,060,500	1.46
250,000	Nevsun Resources Ltd	825,000	1,037,500	1.43
525,000	Sherritt International Corp	472,811	698,250	0.96
500,000	Sunridge Gold Corp	-	-	0.00
	Basic materials	2,482,311	3,085,250	4.24
Industrials				
650,000	Automodular Corp	1,535,779	1,573,000	2.17
30,000	Boyd Group Income Fund	716,084	2,566,800	3.54
65,000	ZCL Composites Inc	502,400	843,050	1.16
100,043	WesternOne Inc	280,120	148,064	0.20
300,000	Firan Technology Group Corp	960,000	1,155,000	1.59
	Total industrials	3,994,383	6,285,914	8.66

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

Year ended December 31, 2016

Number of shares/ par value	Description	Cost \$	Fair value \$	% of total
Canadian equity-long positions (continued):				
Consumer Discretionary				
15,000	Park Lawn Corp	241,775	234,600	0.32
	Total consumer discretionary	241,775	234,600	0.32
Consumer staples				
75,000	Liquor Stores N.A. Ltd	577,305	789,750	1.09
100,000	SunOpta Inc	622,333	957,000	1.32
120,000	Cott Corp	1,734,325	1,824,000	2.51
	Total consumer staples	2,933,963	3,570,750	4.92
Health care				
104,900	Burcon NutraScience Corp	251,131	272,740	0.38
75,000	Knight Therapeutics Inc	750,000	805,500	1.11
400	Maricann Inc	400,000	400,000	0.55
450,000	Medicure Inc	1,444,259	4,635,000	6.39
	Total health care	2,845,390	6,113,240	8.42
Financials				
100,000	Acasta Enterprises Inc	1,000,000	1,000,000	1.38
90,000	Callidus Capital Corp	1,541,368	1,661,400	2.29
225,000	Canaccord Financial Inc	837,180	1,073,250	1.48
500,000	ECN Capital Corp	1,592,104	1,650,000	2.27
600,000	Diversified Royalty Corp	1,440,000	1,542,000	2.12
6,000	Onex Corp	472,798	548,280	0.76
1,000,000	Dealnet Capital Corp	568,110	580,000	0.80
	Total financials	7,451,560	8,054,930	11.10
Information technology				
380,400	Baylin Technologies Inc	704,000	779,820	1.07
400,000	Espial Group Inc	762,815	888,000	1.22
1,100,000	Legend Power Systems Inc	386,000	385,000	0.53
70,000	Norsat International Inc	742,498	744,100	1.03
55,000	Nanotech Security Corp	55,000	83,050	0.11
818,000	UrtheCast Corp	710,862	711,660	0.98
355,000	RDM Corp	1,255,307	1,689,800	2.33
800,000	Sandvine Corp	2,386,857	2,248,000	3.10
1,500,000	TIO Networks Corp	1,594,766	4,260,000	5.87
129,500	Vecima Networks Inc	1,153,874	1,196,580	1.65
	Total information technology	9,751,979	12,986,010	17.89
Telecommunication services				
40,000	Manitoba Telecom Services Inc	1,167,843	1,518,400	2.09
1,055,000	Neulion Inc	763,375	1,213,250	1.67
	Total telecommunication services	1,931,218	2,731,650	3.76
Utilities				
50,000	Just Energy Group Inc	370,658	367,000	0.51
115,000	TransAlta Corp	701,707	854,450	1.18
225,000	Maxim Power Corp	627,720	663,750	0.91
230,000	Polaris Infrastructure Inc	1,995,600	3,500,600	4.82
	Total utilities	3,695,685	5,385,800	7.42
Total Canadian equities – long positions		37,530,775	50,776,319	69.96

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

Year ended December 31, 2016

Number of shares/ par value	Description	Maturity date	Cost \$	Fair value \$	% of total
Foreign equities - long positions:					
	Information technology				
22,000	Twitter Inc		658,874	481,492	0.66
	Total information technology		658,874	481,492	0.66
Total foreign equities - long positions			658,874	481,492	0.66
Derivatives:					
	Energy				
183,750	Delphi Energy, warrants	15-Jul-21	-	169,050	0.23
	Total energy		-	169,050	0.23
	Basic materials				
125,000	Bearing Resources Ltd, warrants	12-Dec-17	-	1,250	0.00
400,000	Bearing Resources Ltd, warrants	21-Oct-17	-	120,000	0.17
	Total basic materials		-	121,250	0.17
	Industrials				
15,000	Savaria Corp, warrants	15-Apr-17	-	99,375	0.14
	Total industrials		-	99,375	0.14
	Health care				
12,500	Nobilis Health Corp, warrants	13-May-17	-	219	0.00
119,000	Quantum Intl Inc, warrants		-	-	0.00
50,000	Synergetics Usa Inc-CVR		-	-	0.00
	Total health care		-	219	0.00
	Financials				
20,000	VIX US	18-Jan-17	79,779	98,286	0.14
15,000	VIX US	18-Jan-17	47,583	47,934	0.07
	Total financials		127,362	146,220	0.20
	Information technology				
100,000	Snipp Interactive Inc, warrants	4-Feb-17	-	-	0.00
150,000	Nanotech Security Corp, warrants	26-Feb-17	-	12,000	0.02
427,500	Tangelo Games Corp, warrants	28-Jan-18	-	-	0.00
	Total information technology		-	12,000	0.02
	Telecommunication services				
1,140,000	Apivio Systems Corp, warrants	24-Mar-17	-	-	0.00
	Total telecommunication services		-	-	0.00
Total derivatives			127,362	548,114	0.76

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

Year ended December 31, 2016

Number of shares/ par value	Description	Cost \$	Fair value \$	% of total
Short Canadian equity:				
	Consumer discretionary			
(30,000)	Sleep Country Canada Holdings	(884,845)	(863,400)	(1.19)
	Total consumer discretionary	(884,845)	(863,400)	(1.19)
	Health Care			
(72,500)	Aphria Inc	(334,075)	(365,400)	(0.50)
	Total health care	(334,075)	(365,400)	(0.50)
	Financials			
(25,000)	Home Capital Group Inc	(697,791)	(783,500)	(1.08)
	Total financials	(697,791)	(783,500)	(1.08)
	Total Canadian equities-short positions	(1,916,711)	(2,012,300)	(2.77)

Description	Cost \$	Fair Value \$	% of Total
Investments	39,334,306	52,545,715	72.40
Derivatives	127,362	548,114	0.75
Investments sold short	(1,916,711)	(2,012,300)	(2.77)
Cash	20,892,907	20,892,907	28.79
Other assets, less liabilities	603,113	603,113	0.83
Total net asset value attributable to holders of redeemable units	59,040,976	72,577,549	100.00

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

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 February 1, 2015. 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. Computershare Trust Company of Canada as Agent for 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").

These financial statements were authorized for issue by the Manager on March 27, 2017.

(b) Basis of measurement:

These 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

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

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

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

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.

(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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

3. Significant accounting policies (continued):

(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, 2016, 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.

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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

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 subseries 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. 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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

4. Related party transactions (continued):

(b) Performance fees (continued):

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. As at December 31, 2016, the total outstanding performance fees payable to the Manager was \$401,180 (2015 - \$3,703).

(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, 2016, 22,523 Series A units (2015 - 15,898 Series A units), 22,673 Series B units (2015 - 22,673 Series B Units) and 33,497 Series C units (2015 - 29,962), of the Fund were owned by the Manager, or its officers and directors.

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:

	2016	2015
Net gain (loss) from financial instruments held-for-trading:		
Derivative financial instruments	\$ 478,864	\$ (167,550)
Net gain (loss) from financial assets designated as at fair value through profit or loss:		
Investments	8,511,068	2,619,795
	<u>\$ 8,989,932</u>	<u>\$ 2,452,245</u>
Net gain (loss) from financial instruments at fair value through profit or loss:		
Realized	\$ 1,544,074	\$ (162,564)
Unrealized	7,445,858	2,614,809
	<u>\$ 8,989,932</u>	<u>\$ 2,452,245</u>

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

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.

The following units were issued or redeemed during the year:

December 31, 2016						
Series	Opening	Shares issued	Shares redeemed	Shares reinvested	Transfers	Closing
Series A - Master	816,466	-	(44,636)	-	563,527	1,335,357
Series A - May 2015	202,000	-	-	-	(202,000)	-
Series A - June 2015	87,002	-	-	-	(87,002)	-
Series A - July 2015	30,000	-	-	-	(30,000)	-
Series A - August 2015	47,500	-	-	-	(47,500)	-
Series A - October 2015	29,000	-	-	-	(29,000)	-
Series A - November 2015	2,000	-	-	-	(2,000)	-
Series A - January 2016	-	48,000	-	-	(48,000)	-
Series A - April 2016	-	22,000	-	-	(22,000)	-
Series A - May 2016	-	50,000	-	-	(50,000)	-
Series A - June 2016	-	10,000	-	-	(10,000)	-
Series A - July 2016	-	578,500	-	-	(578,500)	-
Series A - August 2016	-	60,000	-	-	(60,000)	-
Series A - October 2016	-	22,500	-	-	(22,500)	-
Series A - November 2016	-	70,000	-	-	(70,000)	-
Series A - December 2016	-	60,000	-	-	-	60,000
Series A2 - September 2014	305,275	89,536	-	4,807	-	399,618
Series A2 - October 2014	508,425	-	-	2,233	(510,658)	-
Series A2 - April 2015	503,666	-	-	6,430	-	510,096
Balance, end of year	2,531,334	1,010,536	(44,636)	13,470	(1,205,633)	2,305,071

December 31, 2016						
Series	Opening	Shares issued	Shares redeemed	Shares reinvested	Transfers	Closing
Series B - Master	22,673	-	-	-	-	22,673
Series C	303,521	75,583	(9,258)	-	-	369,846
Series F	505,982	293,069	(23,817)	-	-	775,234
Series I - May 2016	-	-	(9,168)	-	569,280	560,112
Series I - October 2016	-	300,000	(2,750)	-	-	297,250
Balance, end of year	832,176	668,652	(44,993)	-	569,280	2,025,115

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

6. Redeemable units (continued):

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

December 31, 2015						
Series	Opening	Shares issued	Shares redeemed	Shares reinvested	Transfers	Closing
Series A - Master	642,141	-	-	-	174,325	816,466
Series A - August 2014	12,500	-	-	-	(12,500)	-
Series A - November 2014	31,690	-	-	-	(31,690)	-
Series A - December 2014	25,100	-	-	-	(25,100)	-
Series A - January 2015	-	118,500	-	-	(118,500)	-
Series A - February 2015	-	37,250	-	-	(37,250)	-
Series A - March 2015	-	62,500	-	-	(62,500)	-
Series A - April 2015	-	70,100	-	-	(70,100)	-
Series A - May 2015	-	202,000	-	-	-	202,000
Series A - June 2015	-	87,002	-	-	-	87,002
Series A - July 2015	-	30,000	-	-	-	30,000
Series A - August 2015	-	47,500	-	-	-	47,500
Series A - October 2015	-	29,000	-	-	-	29,000
Series A - November 2015	-	2,000	-	-	-	2,000
Series A2 - September 2014	300,945	-	-	4,330	-	305,275
Series A2 - October 2014	501,214	-	-	7,211	-	508,425
Series A2 - April 2015	-	500,000	-	3,666	-	503,666
Balance, end of year	1,513,590	1,185,852	-	15,207	(183,315)	2,531,334

December 31, 2015						
Series	Opening	Shares issued	Shares redeemed	Shares reinvested	Transfers	Closing
Series B - Master	22,673	-	-	-	-	22,673
Series C	137,715	169,152	(3,346)	-	-	303,521
Series F	239,440	288,201	(21,659)	-	-	505,982
Balance, end of year	399,828	457,353	(25,005)	-	-	832,176

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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

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.

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.

(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, 2016, the Fund is 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 0.81% (2015 - 2.07%) 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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

8. Financial risk management (continued):

(d) Market risk (continued):

(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 noninterest bearing.

As at December 31, 2016, the Fund was not exposed to significant interest rate risk as it primarily holds equity investments. The Fund held interest sensitive assets of \$1,287,905 (2015 - \$979,113), approximately 1.8% (2015 - 2.07%) of total net assets.

(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, 2016, the Fund held cash and investments of \$1,785,926 (2015 - \$1,293,858) in U.S. dollars.

As at December 31, 2016, 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 \$89,296 (2015 - \$64,693). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

(iii) 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. All securities present a risk of loss of capital. 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. The Schedule of Investment Portfolio summaries the Fund's exposure to other price risk as at December 31, 2016, by providing the market sector breakdown of investments. Possible losses from written options and securities sold short can be unlimited.

For the Fund, the most significant exposure to other price risk arises from its investment in equity securities. As at December 31, 2016, 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 \$4,924,551 (2015 - \$2,741,867), approximately 6.79% of net assets (2015 - 5.81%). In practice, the actual trading results may differ and the difference could be material.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

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. 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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

9. Fair value of financial instruments (continued):

(a) Valuation models (continued):

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.

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.

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets:				
Bonds	\$ 700,765	\$ 587,140	\$ -	\$ 1,287,905
Options / warrants	-	548,114	-	548,114
Investments sold short	(2,012,300)	-	-	(2,012,300)
Equities	50,857,810	400,000	-	51,257,810
Total assets	\$ 49,546,275	\$ 1,535,254	\$ -	\$ 51,081,529

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Bonds	\$ 979,113	\$ -	\$ -	\$ 979,113
Options / warrants	-	69,250	-	69,250
Investments sold short	(1,505,925)	-	-	(1,505,925)
Equities	28,924,598	-	-	28,924,598
Total assets	\$ 28,397,786	\$ 69,250	\$ -	\$ 28,467,036

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

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

9. Fair value of financial instruments (continued):

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

For the year ended December 31, 2016, the Level 2 equity investment was valued at the last observed traded price for the security. 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, 2016, there were no transfers between investments categorized as Levels 1 and 2.

(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 \$965,952 (2015 - \$407,747). The non-capital losses of \$407,747 and \$558,205 expire in 2035 and 2036 respectively.

The Fund has \$346,148 capital losses available to be carried forward at December 31, 2016 (2015 - \$346,148). Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years.