

Financial Statements of

**MAXAM DIVERSIFIED
STRATEGIES FUND**

Year ended December 31, 2018



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INDEPENDENT AUDITORS' REPORT

To Unitholders of Maxam Diversified Strategies Fund Ltd.

Opinion

We have audited the financial statements of Maxam Diversified Strategies Fund Ltd. (the "Fund"), which comprise:

- the statement of financial position as at end of December 31, 2018
- the statement of comprehensive (loss) income for the year then ended
- the statement of changes in net assets attributable to holders of redeemable units for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 20, 2019

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Financial Position

December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Assets			
Current assets:			
Cash and cash equivalents		\$ 17,313,571	\$ 30,682,422
Dividends and interest receivable		83,600	86,438
Subscriptions receivable		395,038	1,437,799
Derivatives (note 8)		245,238	648,130
Investments (note 8)		91,326,778	87,452,153
		109,364,225	120,306,942
Liabilities			
Current liabilities:			
Redemptions payable		369,131	876,629
Management fees payable	4	117,681	131,433
Performance fees payable	4	-	1,466,100
Accrued liabilities and other accounts payable		46,374	12,027
Dividends payable		26,087	14,469
Investments sold short (note 8)		3,422,190	5,307,059
		3,981,463	7,807,717
Net assets , attributable to holders of redeemable units		\$ 105,382,762	\$ 112,499,225
Net assets attributable to holders of redeemable units by series:			
Series A - Master sub-series	5	\$ 27,482,306	\$ 38,764,785
Series A - January 2018 sub-series		521,818	-
Series A - March 2018 sub-series		148,838	-
Series A - April 2018 sub-series		8,444	-
Series A - May 2018 sub-series		29,833	-
Series A - June 2018 sub-series		217,081	-
Series A - July 2018 sub-series		1,484,771	-
Series A - August 2018 sub-series		19,750	-
Series A - September 2018 sub-series		22,157	-
Series A - October 2018 sub-series		27,879	-
Series A - November 2018 sub-series		24,347	-
Series A - December 2018 sub-series		15,000	-
Series A2 - September 2014 sub-series		4,820,417	5,735,496
Series A2 - April 2015 sub-series		5,635,370	6,705,149
Series B - Master Sub-series		309,890	372,612
Series C		13,824,616	13,679,499
Series F		34,586,176	30,247,569
Series I - May 2016 sub-series		9,164,680	10,906,263
Series I - November 2016 sub-series		3,076,379	3,660,990
Series I - April 2017 sub-series		1,923,031	2,264,553
Series I - October 2018 sub-series		1,865,125	-
Series M		174,854	162,309
		\$ 105,382,762	\$ 112,499,225

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Financial Position (continued)

December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Net assets attributable to holders of redeemable units per unit:			
Series A - Master sub-series	5	\$ 22.93	\$ 27.57
Series A - January 2018 sub-series		8.03	-
Series A - March 2018 sub-series		8.51	-
Series A - April 2018 sub-series		8.44	-
Series A - May 2018 sub-series		8.52	-
Series A - June 2018 sub-series		8.68	-
Series A - July 2018 sub-series		8.94	-
Series A - August 2018 sub-series		8.98	-
Series A - September 2018 sub-series		8.86	-
Series A - October 2018 sub-series		9.29	-
Series A - November 2018 sub-series		9.74	-
Series A - December 2018 sub-series		10.00	-
Series A2 - September 2014 sub-series		11.68	14.04
Series A2 - April 2015 sub-series		10.70	12.86
Series B - Master Sub-series		13.59	16.34
Series C		15.85	19.08
Series F		16.02	19.07
Series I - May 2016 sub-series		11.42	13.44
Series I - November 2016 sub-series		10.72	12.62
Series I - April 2017 sub-series		9.57	11.27
Series I - October 2018 sub-series		9.33	-
Series M		8.94	10.79

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

Approved on behalf of Maxam Capital Management Ltd.:

"Travis Dowle" Director

"Johnny Ciampi" Director

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Comprehensive (Loss) Income

Year ended December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Investment income:			
Dividends		\$ 1,136,560	\$ 835,301
Interest income		337,623	116,932
Other income		1,237	1,271
Foreign exchange gain (loss)		8,858	(120,817)
Other changes in fair value of investments:			
Net realized gain on sale of investments		923,138	8,429,076
Net change in unrealized appreciation		(19,851,521)	7,979,616
		(17,444,105)	17,241,379
Expenses:			
Management fees	4	1,463,430	1,224,805
Performance fees	4	4,087	2,146,220
Professional and administration fees		125,695	89,291
Withholding taxes		-	1,151
Dividend expense		143,789	107,511
GST expense		84,414	180,488
		1,821,415	3,749,466
Expenses waived by Manager		(15,295)	(6,666)
		1,806,120	3,742,800
(Decrease) increase in net assets attributable to holders of redeemable units from operations			
		\$ (19,250,225)	\$ 13,498,579
(Decrease) increase in net assets attributable to holders of redeemable units from operations:			
Series A - Master sub-series		\$ (5,900,932)	\$ 4,908,102
Series A - January 2018 sub-series		(128,182)	-
Series A - March 2018 sub-series		(26,162)	-
Series A - April 2018 sub-series		(1,556)	-
Series A - May 2018 sub-series		(17,643)	-
Series A - June 2018 sub-series		(32,919)	-
Series A - July 2018 sub-series		(175,229)	-
Series A - August 2018 sub-series		(2,250)	-
Series A - September 2018 sub-series		(2,843)	-
Series A - October 2018 sub-series		(2,121)	-
Series A - November 2018 sub-series		(653)	-
Series A - December 2018 sub-series		-	-
Series A2 - September 2014 sub-series		(915,079)	818,958
Series A2 - October 2014 sub-series		-	-
Series A2 - April 2015 sub-series		(1,069,778)	956,900
Series B - Master Sub-series		(62,722)	47,779
Series C		(2,816,855)	1,291,613
Series F		(5,400,461)	2,961,107
Series I - May 2016 sub-series		(1,632,871)	1,618,698
Series I - November 2016 sub-series		(548,118)	618,560
Series I - April 2017 sub-series		(341,522)	264,553
Series I - October 2018 sub-series		(134,874)	-
Series M		(37,455)	12,309
		\$ (19,250,225)	\$ 13,498,579

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Comprehensive (Loss) Income (continued)

Year ended December 31, 2018, with comparative information for 2017

	Notes	2018	2017
(Decrease) increase in net assets attributable to holders of			
redeemable units per unit from operations:			
Series A - Master sub-series	5	\$ (4.49)	\$ 3.18
Series A - January 2018 sub-series		(1.97)	-
Series A - March 2018 sub-series		(1.49)	-
Series A - April 2018 sub-series		(1.56)	-
Series A - May 2018 sub-series		(1.46)	-
Series A - June 2018 sub-series		(1.32)	-
Series A - July 2018 sub-series		(1.06)	-
Series A - August 2018 sub-series		(1.02)	-
Series A - September 2018 sub-series		(1.14)	-
Series A - October 2018 sub-series		(0.71)	-
Series A - November 2018 sub-series		(0.26)	-
Series A - December 2018 sub-series		-	-
Series A2 - September 2014 sub-series		(2.23)	2.05
Series A2 - April 2015 sub-series		(2.04)	1.87
Series B - Master Sub-series		(2.75)	2.11
Series C		(3.33)	2.49
Series F		(3.12)	2.59
Series I - May 2016 sub-series		(2.02)	2.44
Series I - November 2016 sub-series		(1.90)	2.11
Series I - April 2017 sub-series		(1.70)	1.32
Series I - October 2018 sub-series		(0.67)	-
Series M		(1.95)	0.82

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, 2018, with comparative information for 2017

Series A	2018	2017
Balance, beginning of year	\$ 51,205,430	\$ 43,556,700
(Decrease) increase in net assets from operations	(8,275,347)	6,683,960
Distribution to unitholders	(124,035)	(478,392)
Redeemable unit transactions:		
Proceeds from units issued	5,997,000	3,175,000
Reinvested distributions	124,035	478,392
Amounts paid on redemption of units	(8,469,072)	(2,210,230)
	(2,348,037)	1,443,162
Balance, end of year	\$ 40,458,011	\$ 51,205,430

Series B	2018	2017
Balance, beginning of year	\$ 372,612	\$ 324,833
(Decrease) increase in net assets from operations	(62,722)	47,779
Distribution to unitholders	-	(2,176)
Redeemable unit transactions:		
Reinvested distributions	-	2,176
Balance, end of year	\$ 309,890	\$ 372,612

Series C	2018	2017
Balance, beginning of year	\$ 13,679,499	\$ 6,250,421
(Decrease) increase in net assets from operations	(2,816,855)	1,291,613
Distribution to unitholders	-	(59,161)
Redeemable unit transactions:		
Proceeds from units issued	4,365,199	6,866,199
Reinvested distributions	-	59,161
Amounts paid on redemption of units	(1,403,227)	(728,734)
	2,961,972	6,196,626
Balance, end of year	\$ 13,824,616	\$ 13,679,499

MAXAM DIVERSIFIED STRATEGIES FUND

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

Year ended December 31, 2018, with comparative information for 2017

Series F	2018	2017
Balance, beginning of year	\$ 30,247,569	\$ 12,986,770
(Decrease) increase in net assets from operations	(5,400,461)	2,961,107
Distribution to unitholders	-	(129,793)
Redeemable unit transactions:		
Proceeds from units issued	14,909,081	15,808,913
Reinvested distributions	-	129,708
Amounts paid on redemption of units	(5,170,013)	(1,509,136)
	9,739,068	14,429,485
Balance, end of year	\$ 34,586,176	\$ 30,247,569

Series I	2018	2017
Balance, beginning of year	\$ 16,831,806	\$ 9,458,825
(Decrease) increase in net assets from operations	(2,657,385)	2,501,811
Distribution to unitholders	-	(82,898)
Redeemable unit transactions:		
Proceeds from units issued	2,000,000	5,250,000
Reinvested distributions	-	82,898
Amounts paid on redemption of units	(145,206)	(378,830)
	1,854,794	4,954,068
Balance, end of year	\$ 16,029,215	\$ 16,831,806

Series M	2018	2017
Balance, beginning of year	\$ 162,309	\$ -
(Decrease) increase in net assets from operations	(37,455)	12,309
Distribution to unitholders	-	(489)
Redeemable unit transactions:		
Proceeds from units issued	50,000	150,000
Reinvested distributions	-	489
	50,000	150,489
Balance, end of year	\$ 174,854	\$ 162,309
Total net assets attributable to holders of redeemable units, end of year	\$ 105,382,762	\$ 112,499,225

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

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Cash Flows

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
(Decrease) increase in net assets attributable to holders of redeemable units from operations	\$ (19,250,225)	\$ 13,498,579
Adjustments for:		
Net realized gain on sale of investments	(923,138)	(8,429,076)
Net change in unrealized appreciation (depreciation)	19,851,521	(7,979,616)
Transaction costs on purchase and sale of investments	(390,494)	(367,115)
Purchase of investments	(115,969,987)	(216,956,675)
Proceeds from sale of investments	92,075,496	202,020,788
Dividend and interest income	(1,330,394)	(951,082)
Dividend and interest received	1,333,232	943,303
Change in subscriptions receivable	1,042,761	(339,969)
Change in redemptions payable	(507,498)	808,574
Change in management fees payable	(13,752)	42,948
Change in performance fees payable	(1,466,100)	1,064,920
Change in accrued liabilities	34,347	(3,716)
Change in dividend payable	11,618	14,469
Cash flows from operating activities	(25,502,613)	(16,633,668)
Financing activities:		
Proceeds from issue of redeemable units	27,321,280	31,250,112
Payments on redemption of redeemable units	(15,187,518)	(4,826,929)
Cash flows from financing activities	12,133,762	26,423,183
(Decrease) increase in cash	(13,368,851)	9,789,515
Cash, beginning of year	30,682,422	20,892,907
Cash, end of year	\$ 17,313,571	\$ 30,682,422

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

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio

As at December 31, 2018

Number of shares/ par value	Description	Coupon rate %	Maturity date	Cost \$	Fair value \$	% of total
Fixed income-long position:						
Industrials						
2,153,000	WEQ Holdings Inc	6.25%	30-Jun-20	1,819,742	2,174,530	2.06
	Total industrials			1,819,742	2,174,530	2.06
Health care						
500,000	Newtopia Inc	7.0%	6-Nov-19	500,000	500,000	0.47
	Total health care			500,000	500,000	0.47
Financials						
1,250,000	Axis Auto Finance Inc	7.5%	31-Mar-23	1,250,000	1,123,875	1.07
	Total financials			1,250,000	1,123,875	1.07
Information Technology						
900,000	Baylin Technologies Inc	6.5%	10-Jul-23	900,000	1,012,500	0.96
500,000	Siyata Mobile Inc	10.5%	28-Jun-20	500,000	480,950	0.47
	Total information technology			1,400,000	1,493,450	1.43
Total fixed income-long position				4,969,742	5,291,855	5.03

Number of shares/ par value	Description	Cost \$	Fair value \$	% of total
Canadian equity-long positions:				
Energy				
425,000	Altura Energy Inc	225,315	172,125	0.16
31,500	Parex Resources Inc	565,073	515,025	0.49
70,000	Parkland Fuel Corp	2,170,933	2,473,800	2.35
215,000	Secure Energy Services Inc	1,613,775	1,507,150	1.43
90,000	ShawCor Ltd	2,251,243	1,492,200	1.42
250,000	Source Energy Services Ltd	324,951	342,500	0.33
296,000	Trican Well Service Ltd	381,360	352,240	0.33
990,000	Valeura Energy Inc	3,181,818	3,177,900	3.02
	Total energy	10,714,468	10,032,940	9.53
Materials				
130,000	5N Plus Inc	415,102	403,000	0.38
83,900	AirBoss of America Corp	1,173,862	719,862	0.68
760,000	EcoSynthetix Inc	1,481,961	1,474,400	1.40
375,000	Equinox Gold Corp	377,266	382,500	0.36
2,500,000	Euro Manganese Inc	500,000	550,000	0.52
776,900	Geodrill Ltd	1,569,850	1,118,736	1.06
500,000	NexGen Energy Ltd	1,271,508	1,205,000	1.14
500,000	Revival Gold Inc	300,000	400,000	0.38
150,000	Uranium Participation Corp	621,590	672,000	0.64
21,500	Winpak Ltd	988,203	1,026,625	0.97
	Total materials	8,699,342	7,952,123	7.53

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio

As at December 31, 2018

Number of shares/ par value	Description	Maturity date	Cost \$	Fair value \$	% of total
Industrials					
80,000	Aecon Group Inc		1,196,161	1,408,800	1.34
1,031,900	Avante Logixx Inc		1,962,084	2,012,205	1.91
425,000	Bird Construction Inc		3,573,543	2,596,750	2.46
36,300	Boyd Group Income Fund		1,374,657	4,100,085	3.89
215,000	Carmanah Technologies Corp		1,257,363	1,290,000	1.22
30,000	DIRTT Environmental Solutions		174,465	183,300	0.17
175,000	ExactEarth Ltd		178,010	39,375	0.04
1,072,500	Noble Iron Inc		391,800	311,025	0.30
632,850	WEQ Holdings Inc		924,242	1,347,971	1.28
Total industrials			11,032,325	13,289,511	12.61
Consumer discretionary					
2,250,000	Aquilini Gameco Inc		225,000	225,000	0.21
74,600	AutoCanada Inc		781,952	846,710	0.80
7,500	Cineplex Inc		184,675	190,800	0.18
16,200	Indigo Books & Music Inc		204,853	182,736	0.17
600,000	Integrity Gaming Inc		261,913	270,000	0.26
1,250,000	Mimi's Rock Conv PFD		1,250,000	1,250,000	1.19
89,000	Park Lawn Corp		1,891,260	2,052,340	1.95
Total consumer discretionary			4,799,653	5,017,586	4.76
Consumer staples					
60,000	AGT Food & Ingredients Inc		1,058,681	998,400	0.95
250,000	Clearwater Seafoods Inc		1,343,384	1,437,500	1.36
3,300,000	GreenSpace Brands Inc		4,079,021	1,254,000	1.19
Total consumer staples			6,481,086	3,689,900	3.50
Health care					
250,000	African Cannabis Corp		50,000	50,000	0.05
150,000	Careworx Corporation		277,500	450,000	0.43
1,230,000	Hamilton Thorne Ltd		795,129	1,107,000	1.05
295,000	Hamilton Thorne Ltd		324,500	265,500	0.25
205,000	HLS Therapeutics Inc		2,289,793	3,038,100	2.88
264,343	HLS Therapeutics Inc-A PFA		113,360	161,643	0.15
185,000	Knight Therapeutics Inc		1,627,722	1,422,650	1.35
1,025,000	Medicare Inc		5,310,832	6,303,750	5.98
1,010,000	Nova Leap Health Corp		303,625	323,200	0.31
1,000,000	Total Cannabis Sec		100,000	100,000	0.09
1,140,000	Waverley Pharma Inc		557,894	250,800	0.24
750,000	Westaim Corp/The		2,337,492	1,935,000	1.84
670,000	Well Health Technologies Corp		100,500	301,500	0.29
Total health care			14,188,347	15,709,143	14.91
Financials					
989,000	Axis Auto Finance Inc		692,300	425,270	0.40
600,000	Diversified Royalty Corp		1,440,000	1,698,000	1.61
Total financials			2,132,300	2,123,270	2.01

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio

As at December 31, 2018

Number of shares/ par value	Description	Maturity date	Cost \$	Fair value \$	% of total
Information technology					
250,000	Abaxx Technologies		100,000	100,000	0.09
705,100	Baylin Technologies Inc		1,526,630	2,686,431	2.55
655,000	Blackline Safety Corp		1,976,410	3,422,375	3.25
1,275,500	BSM Technologies Inc		1,654,722	1,020,400	0.97
300,000	C-Com Satellite Systems Inc		309,893	354,000	0.34
72,200	Converge Technology Solutions		57,760	38,627	0.04
334,600	Cortex Business Solutions Inc		1,380,950	1,495,662	1.42
115,000	Espial Group Inc		138,612	131,100	0.12
800,000	Legend Power Systems Inc		293,665	272,000	0.26
2,500,000	Onesoft Solutions Inc		585,087	1,175,000	1.11
1,050,000	Nanotech Security Corp		1,254,323	556,500	0.53
1,049,000	Photon Control Inc		1,056,205	1,143,410	1.09
34,500	Pivot Technology Solutions Inc		32,735	35,190	0.03
600,000	Sangoma Technologies Corp		751,500	744,000	0.71
15,000	Sierra Wireless Inc		323,091	274,950	0.26
60,000	TECSYS Inc		941,446	741,600	0.70
300,000	Vecima Networks Inc		2,871,900	2,445,000	2.32
Total information technology			15,254,929	16,636,245	15.79
Utilities					
500,000	Maxim Power Corp		1,353,490	1,085,000	1.03
229,000	Polaris Infrastructure Inc		2,457,185	2,358,700	2.24
Utilities			3,810,675	3,443,700	3.27
Real estate					
75,000	Agellan Commercial Real Estate		1,063,508	1,058,250	1.00
200,000	Pure Multi-Family REIT LP		1,833,064	1,684,000	1.60
Total real estate			2,896,572	2,742,250	2.60
Telecommunication services					
51,000	Shaw Communications Inc		1,281,443	1,260,210	1.20
Total telecommunication services			1,281,443	1,260,210	1.20
Total Canadian equities – long positions			81,291,140	81,896,878	77.71

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

Year ended December 31, 2018

Number of shares/ par value	Description	Maturity date	Cost \$	Fair value \$	% of total
Foreign equities - long positions:					
Consumer discretionary					
8,000	The Walt Disney Co		1,136,744	1,195,097	1.13
	Total consumer discretionary		1,136,744	1,195,097	1.13
Health care					
85,000	Zymeworks Inc		1,540,707	1,700,003	1.61
	Total health care		1,540,707	1,700,003	1.61
Financials					
250,000	Canaccord Genuity Sub Rec		754,154	783,380	0.74
	Total financials		754,154	783,380	0.74
Information technology					
3,000	Electronic Arts Inc		323,399	322,521	0.31
3,500	Twitter Inc		136,776	137,044	0.13
	Total information technology		460,175	459,565	0.44
Total foreign equities - long positions			3,891,780	4,138,045	3.92

Derivatives:

Consumer staples					
50,400	Campbell Soup Co Call 45	1/18/2019	19,007	5,493	0.01
	Total consumer staples		19,007	5,493	0.01
Industrials					
30,000	Westshore Terminals Investment Call 27	4/18/2019	7,500	3,000	0.00
40,000	Westshore Terminals Investment Call 29	1/18/2019	20,000	1,800	0.00
200,000	WTS Enwave Corp	11/15/2022	44,000	79,000	0.07
4,450,000	WTS Global UAV Technologies Ltd	6/25/2020	-	-	-
95,500	WTS Spark Power Group Inc	8/31/2023	-	25,785	0.02
	Total industrials		71,500	109,585	0.09
Health care					
75,000	WTS Captor Cap Corp	2/12/2020	-	-	-
500,000	WTS Led Med Diagns	2/11/2019	-	-	-
500	WTS Newtopia Inc	11/6/2021	-	-	-
75,000	WTS Profound Med	3/20/2023	13,500	1,500	0.00
1,000,000	WTS Total Cannabis	6/5/2020	-	-	-
335,000	WTS Well Health Tech	6/13/2019	-	68,675	0.07
	Total health care		13,500	70,175	0.07
Financials					
750,000	WTS Axis Auto Finance Inc	1/19/2021	-	3,750	0.00
	Total financials		-	3,750	0.00
Information technology					
1,562,500	WTS Memex Inc	9/26/2019	-	-	-
513,250	WTS Prontoforms Corp	6/22/2019	-	-	-
400,000	WTS Spectra7 Micro	6/27/2019	8,000	-	-
500,000	WTS - Siyata Mobile Inc	12/28/2019	-	2,500	-
1,250,000	WTS - Siyata Mobile Inc	03/16/2019	128,650	6,250	-
500,000	WTS Universal Mclcd	3/19/2021	-	7,500	0.01
	Total information technology		136,650	16,250	0.01

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

Year ended December 31, 2018

Number of shares/ par value	Description	Maturity date	Cost \$	Fair value \$	% of total
Materials					
100,000	iShares Silver Trust Call 20	1/18/2019	34,621	1,362	0.00
(100,000)	iShares Silver Trust Call 22	1/18/2019	(17,921)	(1,362)	0.00
400,000	WTS - Fortune Minerals	03/08/2019	12,000	-	-
250,000	WTS - Revival Gold	10/19/2019	-	13,750	-
131,000	WTS Sherritt International Corp	1/25/2021	-	7,860	0.01
540,000	WTS - Alio Gold	01/31/2020	-	-	-
Total materials			28,700	21,610	0.01
Energy					
187,750	Delphi Energy Corp	07/15/2021	-	18,375	-
Total energy			0.00	18,375	0.00
Total Derivatives			269,357	245,238	0.19
Short Canadian equity:					
Industrials					
(4,000)	Air Canada		(105,887)	(103,840)	(0.10)
(3,000)	TFI International Inc		(127,437)	(105,900)	(0.10)
(1,500)	Waste Connections Inc		(153,560)	(151,995)	(0.14)
(30,000)	Westshore Terminals Investment Corp		(699,949)	(617,400)	(0.59)
Total industrials			(1,086,833)	(979,135)	(0.93)
Consumer discretionary					
(2,000)	Canadian Tire Corp Ltd		(302,876)	(285,480)	(0.27)
(2,500)	Dollarama Inc		(125,393)	(81,175)	(0.08)
(1,000)	Great Canadian Gaming Corp		(47,160)	(47,870)	(0.05)
(15,000)	Sleep Country Canada Holdings Inc		(494,435)	(299,550)	(0.28)
Total consumer discretionary			(969,864)	(714,075)	(0.68)
Health care					
(10,000)	Aurora Cannabis Inc		(96,575)	(67,800)	(0.06)
(6,000)	Canopy Growth Corp		(311,540)	(219,660)	(0.21)
Total health care			(408,115)	(287,460)	(0.27)
Information technology					
(2,000)	Thomson Reuters Corp		(133,610)	(131,860)	(0.13)
Total information technology			(133,610)	(131,860)	(0.13)
Financials					
(25,000)	Genworth MI Canada Inc		(1,037,942)	(1,005,000)	(0.95)
Total financials			(1,037,942)	(1,005,000)	(0.95)
Total Canadian equities-short			(3,636,364)	(3,117,530)	(2.96)
Foreign Equity- Short					
Financials					
(3,000)	Canadian Imperial Bank of Comm		(300,496)	(304,660)	(0.29)
Total Financials			(300,496)	(304,660)	(0.29)
Total foreign equity - short			(300,496)	(304,660)	(0.29)

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

Year ended December 31, 2018

Description	Cost \$	Fair Value \$	% of Total
Bonds and equities	90,152,662	91,326,778	86.66
Derivatives	269,357	245,238	0.24
Investments sold short	(3,936,859)	(3,422,190)	(3.25)
Other assets, less liabilities	17,232,936	17,232,936	16.35
Total net asset value attributable to holders of redeemable units	103,718,096	105,382,762	100.00

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2018

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").

The financial statements were authorized for issue by the Manager on March 20, 2019.

(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

Year ended December 31, 2018

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: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). 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 FVTPL in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities 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. 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.

A financial asset that is a debt instrument is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal interest on the principal amount outstanding.

A financial asset that is a debt instrument is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal interest on the principal amount outstanding

All financial assets that are not debt instruments not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

Equity instruments are measured at FVTPL unless an election is made to measure at FVOCI.

Financial assets are not reclassified subsequent to their initial recognition, unless the Fund changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2018

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Recognition and measurement (continued):

The Fund has not classified any of its financial assets as FVOCI.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivatives liabilities. The Fund may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

(ii) Fair value through profit and loss:

Financial instruments classified as 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 and investments in securities and investments sold short are classified 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.

The fair value of financial assets and liabilities that are not traded in an active market, including non-publicly traded 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) Amortized cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Fund classifies cash and cash equivalents, dividends receivable, interest receivable, subscriptions receivable, management fees payable, performance fees payable, redemptions payable, and accrued liabilities and other accounts payable as amortized cost.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2018

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(iii) Amortized cost (continued):

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.

(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.

(d) Income recognition:

Interest income is recognized on an accrual basis using the effective interest method. Dividend income is recognized on 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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2018

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%
Series M	2%

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, 2018

4. Related party transactions (continued):

(b) Performance fees (continued):

Series C and Series F and Series M:

The Fund will pay a performance fee equal to 20% of the increase in the net asset value of Series C, Series F and Series M units over the previous high watermark for each applicable series of units. The performance fee for Series C, Series F and Series M 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, Series F or Series M 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, Series F and Series M units from time to time establishes a high watermark for Series C, Series F and Series M units which must be exceeded in subsequent quarters for the performance fee applicable to Series C, Series F and Series M 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, 2018, the total outstanding performance fees payable to the manager was nil (2017 - \$1,466,100).

(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 officers and Directors are measured at the exchange amounts. At December 31, 2018, 92,713 Series A units (2017 - 40,713 Series A units), 22,807 Series B units (2017 - 22,807 Series B Units) and 56,712 Series C units (2017 - 39,786), of the Fund were owned by the Manager, or its officers and directors.

5. 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 six series of units: Series A, Series B, Series C, Series F, Series I and Series M. Series A units are available to investors who purchase units directly from the Manager or through authorized brokers or dealers. 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. Series M units are available to investors that purchase directly from 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

Year ended December 31, 2018

5. Redeemable units (continued):

The following units were issued or redeemed during the year:

December 31, 2018						
Series	Opening	Shares issued	Shares redeemed	Shares reinvested	Transfers	Closing
Series A - Master	1,405,800	-	(207,427)	-	-	1,198,373
Series A - January 2018	-	65,000	-	-	-	65,000
Series A - March 2018	-	17,500	-	-	-	17,500
Series A - April 2018	-	1,000	-	-	-	1,000
Series A - May 2018	-	13,500	(10,000)	-	-	3,500
Series A - June 2018	-	25,000	-	-	-	25,000
Series A - July 2018	-	166,000	-	-	-	166,000
Series A - August 2018	-	2,200	-	-	-	2,200
Series A - September 2018	-	2,500	-	-	-	2,500
Series A - October 2018	-	3,000	-	-	-	3,000
Series A - November 2018	-	2,500	-	-	-	2,500
Series A - December 2018	-	1,500	-	-	-	1,500
Series A2- September 2014	408,461	250,186	(250,186)	4,321	-	412,782
Series A2 - April 2015	521,400	-	-	5,515	-	526,915
Balance, end of year	2,335,661	549,886	(467,613)	9,836	-	2,427,770

The following units were issued or redeemed during the year:

December 31, 2018						
Series	Opening	Shares issued	Shares redeemed	Shares reinvested	Transfers	Closing
Series B - Master	22,807	-	-	-	-	22,807
Series C	717,104	234,477	(79,529)	-	-	872,052
Series F	1,586,509	866,940	(294,345)	-	-	2,159,104
Series I	-	-	-	-	-	-
May 2016	811,293	-	(8,479)	-	-	802,814
Series I	-	-	-	-	-	-
November 2016	290,036	-	(3,031)	-	-	287,005
Series I	-	-	-	-	-	-
April 2017	200,876	-	-	-	-	200,876
Series I	-	-	-	-	-	-
October 2018	-	200,000	-	-	-	200,000
Series M	15,045	4,511	-	-	-	19,556
Balance, end of year	3,643,670	1,305,928	(385,384)	-	-	4,564,214

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2018

5. Redeemable units (continued):

December 31, 2017						
Series	Opening	Shares issued	Shares redeemed	Shares reinvested	Transfers	Closing
Series A - Master	1,335,357	-	(86,956)	7,801	149,598	1,405,800
Series A - December 2016	60,000	-	-	-	(60,000)	-
Series A - January 2017	-	15,000	-	-	(15,000)	-
Series A - February 2017	-	80,000	-	-	(80,000)	-
Series A - April 2017	-	36,000	-	144	(36,144)	-
Series A - May 2017	-	56,500	-	197	(56,697)	-
Series A - June 2017	-	6,000	-	18	(6,018)	-
Series A - July 2017	-	6,000	-	15	(6,015)	-
Series A - August 2017	-	1,000	-	2	(1,002)	-
Series A - September 2017	-	12,000	-	19	(12,019)	-
Series A - November 2017	-	105,000	-	53	(105,053)	-
Series A2 - September 2014	399,618	-	-	8,843	-	408,461
Series A2 - April 2015	510,096	-	-	11,304	-	521,400
Balance, end of year	2,305,071	317,500	(86,956)	28,396	(228,350)	2,335,661

The following units were issued or redeemed during the year:

December 31, 2017						
Series	Opening	Shares issued	Shares redeemed	Shares reinvested	Transfers	Closing
Series B - Master	22,673	-	-	134	-	22,807
Series C	369,846	385,492	(41,335)	3,101	-	717,104
Series F	775,234	887,571	(83,100)	6,804	-	1,586,509
Series I - May 2016	560,112	268,765	(21,430)	3,846	-	811,293
Series I - November 2016	297,250	-	(8,903)	1,689	-	290,036
Series I - April 2017	-	200,000	-	876	-	200,876
Series M	-	15,000	-	45	-	15,045
Balance, end of year	2,025,115	1,756,828	(154,768)	16,495	-	3,643,670

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2018

6. 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.

7. 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.

(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, 2018, 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 1.0% (2017 - nil) 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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2018

7. Financial risk management (continued):

(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 noninterest bearing.

As at December 31, 2018, the Fund held interest sensitive assets of \$5,291,855 (2017 - \$1,351,060), approximately 5.0% (2017 - 1.2%) 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, 2018, the Fund held cash and investments of \$3,124,250 (2017 - \$1,646,314) in U.S. dollars.

As at December 31, 2018, 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 \$156,226 (2017 - \$82,316). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2018

7. Financial risk management (continued):

(d) Market risk (continued):

(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 financial position. The Schedule of Investment Portfolio summarizes the Fund's exposure to other price risk as at December 31, 2018, 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, 2018, 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 \$8,814,983 (2017 - \$8,079,404), approximately 8.36% of net assets (2017 - 7.18%). In practice, the actual trading results may differ and the difference could be material.

8. 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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2018

8. Fair value of financial instruments (continued):

(a) Valuation models (continued):

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.

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.

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8. Fair value of financial instruments (continued):

(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, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Bonds	\$ 4,279,355	\$ 1,012,500	\$ -	\$ 5,291,855
Options/warrants	-	245,238	-	245,238
Investments sold short	(3,422,190)	-	-	(3,422,190)
Equities	81,255,904	3,431,048	1,347,971	86,034,923
Total assets	\$ 82,113,069	\$ 4,688,786	\$ 1,347,971	\$ 88,149,826

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Bonds	\$ 1,351,060	\$ -	\$ -	\$ 1,351,060
Options / warrants	-	648,130	-	648,130
Investments sold short	(5,307,059)	-	-	(5,307,059)
Equities	82,822,968	3,278,125	-	86,101,093
Total assets	\$ 78,866,969	\$ 3,926,255	\$ -	\$ 82,793,224

For the years ended December 31, 2018 and 2017 the Level 2 equity investments were valued based on 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.

During the current year, due to a voluntary delisting, the Fund transferred an equity investment with a carrying amount of \$1,347,971 from Level 1 to Level 3 of the fair value hierarchy.

(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.

MAXAM DIVERSIFIED STRATEGIES FUND

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Year ended December 31, 2018

8. Fair value of financial instruments (continued):

(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.

9. Income taxes:

The Fund has non-capital losses available for utilization against taxable income in future years of \$77,557 (2017 - \$77,557).

The Fund has nil capital losses available to be carried forward at December 31, 2018 (2017 - nil). Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years.

10. Change in accounting policy:

The Fund has adopted IFRS 9 *Financial Instruments* ("IFRS 9") with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 specifies the accounting for financial instruments, including: classification and measurement, impairment and hedge accounting. The adoption of IFRS 9 have been applied retrospectively. The nature and effects of the key changes to the Fund's accounting policy are summarized below.

(a) Classification and measurement of financial assets and liabilities:

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Fund may also, at initial recognition, irrevocably designate a financial asset as measured at FVTPL when doing so results in more relevant information. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivatives liabilities. The Fund may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

The adoption of IFRS 9 did not result in any measurement differences in the Fund's financial assets and liabilities as at the transition date. The following table shows the original classification and measurement categories under IAS 39 and the new classification and measurement categories under IFRS 9 for each class of the Fund's financial assets and financial liabilities as at January 1, 2018.

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Year ended December 31, 2018

11. Change in accounting policy (continued):

(a) Classification and measurement of financial assets and liabilities (continued):

	Original Classification under IAS 39	New Classification under IFRS 9
Financial assets		
Cash	Loans and receivables	Amortized cost
Derivatives	Held-for-trading	FVTPL
Investments	FVTPL	FVTPL
Dividends and interest receivable	Loans and receivables	Amortized cost
Subscriptions receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accrued liabilities and other payable	Other financial liabilities	Amortized cost
Management fee payable	Other financial liabilities	Amortized cost
Performance fees payable	Other financial liabilities	Amortized cost
Redemptions payable	Other financial liabilities	Amortized cost
Dividends payable	Other financial liabilities	Amortized cost
Investments sold short	FVTPL	FVTPL

(b) Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. As the Fund measures its financial assets at FVTPL or holds only short-term financial assets at amortized cost, the impairment requirements under the new standard do not impact these financial statements.

(c) Hedge accounting

As permitted by IFRS 9, an election is available to continue to apply the hedge accounting requirements of IAS 39. However, the Fund has not applied hedge accounting under either standard. Therefore, the hedge accounting requirements under the new standard do not impact these financial statements.