

Financial Statements of

**MAXAM DIVERSIFIED
STRATEGIES FUND**

And Independent Auditors' Report

Year ended December 31, 2019



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To unitholders of Maxam Diversified Strategies Fund

Opinion

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

- the statement of financial position as at December 31, 2019
- the statement of comprehensive income (loss) 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, 2019, 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 ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 24, 2020

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Financial Position

December 31, 2019, with comparative information for 2018

| | Notes | 2019 | 2018 |
|---|-------|----------------------|-----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | | \$ 8,860,425 | \$ 17,313,571 |
| Dividends and interest receivable | | 114,279 | 83,600 |
| Subscriptions receivable | | 157,000 | 395,038 |
| Derivatives | 8 | 855,940 | 245,238 |
| Investments | 8 | 79,033,391 | 91,326,778 |
| | | 89,021,035 | 109,364,225 |
| Liabilities | | | |
| Current liabilities: | | | |
| Redemptions payable | | 1,530,332 | 369,131 |
| Management fees payable | 4 | 94,597 | 117,681 |
| Performance fees payable | 4 | 825 | - |
| Accrued liabilities and other accounts payable | | 21,585 | 46,374 |
| Dividends payable | | 5,900 | 26,087 |
| Investments sold short | 8 | 3,082,865 | 3,422,190 |
| | | 4,736,104 | 3,981,463 |
| Net assets , attributable to holders of redeemable units | | \$ 84,284,931 | \$ 105,382,762 |
| Net assets attributable to holders of redeemable units by series: | | | |
| Series A - Master sub-series | 5 | \$ 15,817,861 | \$ 27,482,306 |
| Series A - January 2018 sub-series | | 131,164 | 521,818 |
| Series A - March 2018 sub-series | | 161,882 | 148,838 |
| Series A - April 2018 sub-series | | 9,197 | 8,444 |
| Series A - May 2018 sub-series | | 32,495 | 29,833 |
| Series A - June 2018 sub-series | | 236,449 | 217,081 |
| Series A - July 2018 sub-series | | 1,227,546 | 1,484,771 |
| Series A - August 2018 sub-series | | 21,512 | 19,750 |
| Series A - September 2018 sub-series | | 24,134 | 22,157 |
| Series A - October 2018 sub-series | | 30,366 | 27,879 |
| Series A - November 2018 sub-series | | 26,417 | 24,347 |
| Series A - December 2018 sub-series | | 16,170 | 15,000 |
| Series A - January 2019 sub-series | | 263,975 | - |
| Series A - March 2019 sub-series | | 25,613 | - |
| Series A - April 2019 sub-series | | 25,276 | - |
| Series A - August 2019 sub-series | | 10,378 | - |
| Series A - September 2019 sub-series | | 10,559 | - |
| Series A - October 2019 sub-series | | 37,753 | - |
| Series A2 - September 2014 sub-series | | 4,257,437 | 4,820,417 |
| Series A2 - April 2015 sub-series | | 6,203,048 | 5,635,370 |
| Series B - Master sub-series | | 5,844,949 | 309,890 |
| Series C | | 13,359,613 | 13,824,616 |
| Series F | | 18,113,520 | 34,586,176 |
| Series I - May 2016 sub-series | | 10,087,890 | 9,164,680 |
| Series I - November 2016 sub-series | | 3,386,280 | 3,076,379 |
| Series I - April 2017 sub-series | | 2,139,102 | 1,923,031 |
| Series I - October 2018 sub-series | | 2,074,691 | 1,865,125 |
| Series M | | 709,654 | 174,854 |
| | | \$ 84,284,931 | \$ 105,382,762 |

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Financial Position (continued)

December 31, 2019, with comparative information for 2018

| | Notes | 2019 | 2018 |
|--|-------|----------|----------|
| Net assets attributable to holders of redeemable units per unit: | | | |
| Series A - Master sub-series | 5 | \$ 24.98 | \$ 22.93 |
| Series A - January 2018 sub-series | | 8.74 | 8.03 |
| Series A - March 2018 sub-series | | 9.25 | 8.51 |
| Series A - April 2018 sub-series | | 9.20 | 8.44 |
| Series A - May 2018 sub-series | | 9.28 | 8.52 |
| Series A - June 2018 sub-series | | 9.46 | 8.68 |
| Series A - July 2018 sub-series | | 9.74 | 8.94 |
| Series A - August 2018 sub-series | | 9.78 | 8.98 |
| Series A - September 2018 sub-series | | 9.65 | 8.86 |
| Series A - October 2018 sub-series | | 10.12 | 9.29 |
| Series A - November 2018 sub-series | | 10.57 | 9.74 |
| Series A - December 2018 sub-series | | 10.78 | 10.00 |
| Series A - January 2019 sub-series | | 10.56 | - |
| Series A - March 2019 sub-series | | 10.25 | - |
| Series A - April 2019 sub-series | | 10.11 | - |
| Series A - August 2019 sub-series | | 10.38 | - |
| Series A - September 2019 sub-series | | 10.56 | - |
| Series A - October 2019 sub-series | | 10.79 | - |
| Series A2 - September 2014 sub-series | | 12.72 | 11.68 |
| Series A2 - April 2015 sub-series | | 11.65 | 10.70 |
| Series B - Master sub-series | | 14.80 | 13.59 |
| Series C | | 17.26 | 15.85 |
| Series F | | 17.63 | 16.02 |
| Series I - May 2016 sub-series | | 12.70 | 11.42 |
| Series I - November 2016 sub-series | | 11.92 | 10.72 |
| Series I - April 2017 sub-series | | 10.65 | 9.57 |
| Series I - October 2018 sub-series | | 10.37 | 9.33 |
| Series M | | 9.73 | 8.94 |

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 Income (Loss)

Year ended December 31, 2019, with comparative information for 2018

| | Notes | 2019 | 2018 |
|--|-------|--------------|-----------------|
| Investment income: | | | |
| Dividends | | \$ 1,177,111 | \$ 1,136,560 |
| Interest income | | 527,667 | 337,623 |
| Other income | | 2,780 | 1,237 |
| Foreign exchange (loss) gain | | (16,157) | 8,858 |
| Other changes in fair value of investments: | | | |
| Net realized (loss) gain on sale of investments | | (1,555,501) | 923,138 |
| Net change in unrealized appreciation (depreciation) | | 10,319,238 | (19,851,521) |
| | | 10,455,138 | (17,444,105) |
| Expenses: | | | |
| Management fees | 4 | 1,263,876 | 1,463,430 |
| Performance fees | 4 | 2,478 | 4,087 |
| Income taxes | | (22,252) | - |
| Professional and administration fees | | 124,420 | 125,695 |
| Dividend expense | | 163,146 | 143,789 |
| GST expense | | 77,439 | 84,414 |
| | | 1,609,107 | 1,821,415 |
| Expenses waived by Manager | | (11,165) | (15,295) |
| | | 1,597,942 | 1,806,120 |
| Increase (decrease) in net assets attributable to holders of redeemable units from operations | | | |
| | | \$ 8,857,196 | \$ (19,250,225) |
| Increase (decrease) in net assets attributable to holders of redeemable units from operations: | | | |
| Series A - Master sub-series | | \$ 1,910,334 | \$ (5,900,932) |
| Series A - January 2018 sub-series | | 38,163 | (128,182) |
| Series A - March 2018 sub-series | | 13,044 | (26,162) |
| Series A - April 2018 sub-series | | 753 | (1,556) |
| Series A - May 2018 sub-series | | 2,662 | (17,643) |
| Series A - June 2018 sub-series | | 19,368 | (32,919) |
| Series A - July 2018 sub-series | | 124,991 | (175,229) |
| Series A - August 2018 sub-series | | 1,762 | (2,250) |
| Series A - September 2018 sub-series | | 1,977 | (2,843) |
| Series A - October 2018 sub-series | | 2,487 | (2,121) |
| Series A - November 2018 sub-series | | 2,070 | (653) |
| Series A - December 2018 sub-series | | 1,170 | - |
| Series A - January 2019 sub-series | | 13,975 | - |
| Series A - March 2019 sub-series | | 613 | - |
| Series A - April 2019 sub-series | | 276 | - |
| Series A - August 2019 sub-series | | 378 | - |
| Series A - September 2019 sub-series | | 560 | - |
| Series A - October 2019 sub-series | | 2,753 | - |
| Series A2 - September 2014 sub-series | | 445,215 | (915,079) |
| Series A2 - April 2015 sub-series | | 567,677 | (1,069,778) |
| Series B - Master sub-series | | 307,065 | (62,722) |
| Series C | | 1,137,810 | (2,816,855) |
| Series F | | 2,432,872 | (5,400,461) |
| Series I - May 2016 sub-series | | 1,024,787 | (1,632,871) |
| Series I - November 2016 sub-series | | 343,998 | (548,118) |
| Series I - April 2017 sub-series | | 216,071 | (341,522) |
| Series I - October 2018 sub-series | | 209,565 | (134,874) |
| Series M | | 34,800 | (37,455) |
| | | \$ 8,857,196 | \$ (19,250,225) |

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Comprehensive Income (Loss) (continued)

Year ended December 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|---------|-----------|
| Increase (decrease) in net assets attributable to holders of redeemable units per unit from operations: | | |
| Series A - Master sub-series | \$ 2.38 | \$ (4.49) |
| Series A - January 2018 sub-series | 0.87 | (1.97) |
| Series A - March 2018 sub-series | 0.75 | (1.49) |
| Series A - April 2018 sub-series | 0.75 | (1.56) |
| Series A - May 2018 sub-series | 0.76 | (1.46) |
| Series A - June 2018 sub-series | 0.77 | (1.32) |
| Series A - July 2018 sub-series | 0.84 | (1.06) |
| Series A - August 2018 sub-series | 0.80 | (1.02) |
| Series A - September 2018 sub-series | 0.79 | (1.14) |
| Series A - October 2018 sub-series | 0.83 | (0.71) |
| Series A - November 2018 sub-series | 0.83 | (0.26) |
| Series A - December 2018 sub-series | 0.78 | - |
| Series A - January 2019 sub-series | 0.56 | - |
| Series A - March 2019 sub-series | 0.25 | - |
| Series A - April 2019 sub-series | 0.11 | - |
| Series A - August 2019 sub-series | 0.38 | - |
| Series A - September 2019 sub-series | 0.56 | - |
| Series A - October 2019 sub-series | 0.79 | - |
| Series A2 - September 2014 sub-series | 1.09 | (2.23) |
| Series A2 - April 2015 sub-series | 1.07 | (2.04) |
| Series B - Master sub-series | 0.72 | (2.75) |
| Series C | 1.26 | (3.33) |
| Series F | 1.43 | (3.12) |
| Series I - May 2016 sub-series | 1.28 | (2.02) |
| Series I - November 2016 sub-series | 1.20 | (1.90) |
| Series I - April 2017 sub-series | 1.08 | (1.70) |
| Series I - October 2018 sub-series | 1.05 | (0.67) |
| Series M | 1.44 | (1.95) |

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, 2019, with comparative information for 2018

| Series A | 2019 | 2018 |
|---|---------------|---------------|
| Balance, beginning of year | \$ 40,458,011 | \$ 51,205,430 |
| Increase (decrease) in net assets from operations | 3,150,228 | (8,275,347) |
| Distribution to unitholders | (114,977) | (124,035) |
| Redeemable unit transactions: | | |
| Issue of redeemable units | 1,355,000 | 5,997,000 |
| Reinvested distributions | 114,977 | 124,035 |
| Redemption of redeemable units | (16,394,007) | (8,469,072) |
| | (14,924,030) | (2,348,037) |
| Balance, end of year | \$ 28,569,232 | \$ 40,458,011 |

| Series B | 2019 | 2018 |
|---|--------------|------------|
| Balance, beginning of year | \$ 309,890 | \$ 372,612 |
| Increase (decrease) in net assets from operations | 307,065 | (62,722) |
| Redeemable unit transactions: | | |
| Issue of redeemable units | 9,927,994 | - |
| Redemption of redeemable units | (4,700,000) | - |
| | 5,227,994 | - |
| Balance, end of year | \$ 5,844,949 | \$ 309,890 |

| Series C | 2019 | 2018 |
|---|---------------|---------------|
| Balance, beginning of year | \$ 13,824,616 | \$ 13,679,499 |
| Increase (decrease) in net assets from operations | 1,137,810 | (2,816,855) |
| Redeemable unit transactions: | | |
| Issue of redeemable units | 3,908,344 | 4,365,199 |
| Redemption of redeemable units | (5,511,157) | (1,403,227) |
| | (1,602,813) | 2,961,972 |
| Balance, end of year | \$ 13,359,613 | \$ 13,824,616 |

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units (continued)

Year ended December 31, 2019, with comparative information for 2018

| Series F | 2019 | 2018 |
|---|---------------|----------------|
| Balance, beginning of year | \$ 34,586,176 | \$ 30,247,569 |
| Increase (decrease) in net assets from operations | 2,432,872 | (5,400,461) |
| Redeemable unit transactions: | | |
| Issue of redeemable units | 3,776,175 | 14,909,081 |
| Redemption of redeemable units | (22,681,703) | (5,170,013) |
| | (18,905,528) | 9,739,068 |
| Balance, end of year | \$ 18,113,520 | \$ 34,586,176 |
| Series I | 2019 | 2018 |
| Balance, beginning of year | \$ 16,029,215 | \$ 16,831,806 |
| Increase (decrease) in net assets from operations | 1,794,421 | (2,657,385) |
| Redeemable unit transactions: | | |
| Issue of redeemable units | - | 2,000,000 |
| Redemption of redeemable units | (135,673) | (145,206) |
| | (135,673) | 1,854,794 |
| Balance, end of year | \$ 17,687,963 | \$ 16,029,215 |
| Series M | 2019 | 2018 |
| Balance, beginning of year | \$ 174,854 | \$ 162,309 |
| Increase (decrease) in net assets from operations | 34,800 | (37,455) |
| Redeemable unit transactions: | | |
| Issue of redeemable units | 500,000 | 50,000 |
| | 500,000 | 50,000 |
| Balance, end of year | \$ 709,654 | \$ 174,854 |
| Total net assets attributable to holders of redeemable units, end of year | \$ 84,284,931 | \$ 105,382,762 |

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

MAXAM DIVERSIFIED STRATEGIES FUND

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|---------------|-----------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Increase (decrease) in net assets attributable to holders of redeemable units from operations | \$ 8,857,196 | \$ (19,250,225) |
| Adjustments for: | | |
| Net realized gain on sale of investments | 1,555,501 | (923,138) |
| Net change in unrealized (depreciation) appreciation | (10,319,238) | 19,851,521 |
| Transaction costs on purchase and sale of investments | (311,086) | (390,494) |
| Purchase of investments | (117,413,488) | (115,969,987) |
| Proceeds from sale of investments | 137,831,671 | 92,075,496 |
| Dividend and interest income | (1,541,632) | (1,330,394) |
| Dividend and interest received | 1,510,953 | 1,333,232 |
| Change in subscriptions receivable | 238,038 | 1,042,761 |
| Change in redemptions payable | 1,161,201 | (507,498) |
| Change in management fees payable | (23,084) | (13,752) |
| Change in performance fees payable | 825 | (1,466,100) |
| Change in accrued liabilities | (24,789) | 34,347 |
| Change in dividend payable | (20,187) | 11,618 |
| Cash flows from (used in) operating activities | 21,501,881 | (25,502,613) |
| Financing activities: | | |
| Proceeds from issue of redeemable units | 9,145,320 | 27,321,280 |
| Payments on redemption of redeemable units | (39,100,347) | (15,187,518) |
| Cash flows provided by (used in) from financing activities | (29,955,027) | 12,133,762 |
| Increase (decrease) in cash | (8,453,146) | (13,368,851) |
| Cash, beginning of year | 17,313,571 | 30,682,422 |
| Cash, end of year | \$ 8,860,425 | \$ 17,313,571 |

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

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio

As at December 31, 2019

| Number of shares/ par value | Description | Coupon rate % | Maturity date | Cost \$ | Fair value \$ | % of total |
|---|-------------------------------------|---------------|---------------|------------------|------------------|-------------|
| Bond – long positions: | | | | | | |
| Consumer staples | | | | | | |
| 350,000 | Burcon Nutrascience | 8.5% | 12/10/2022 | 350,000 | 376,845 | 0.45 |
| | Total consumer staples | | | 350,000 | 376,845 | 0.45 |
| Health care | | | | | | |
| 120,000 | Medexus Pharmaceuticals | 6.0% | 10/16/2023 | 118,000 | 114,000 | 0.14 |
| 400,000 | Nova Leap Health | 8.0% | 12/30/2024 | 400,000 | 420,680 | 0.50 |
| 750,000 | Well Health Technologies | 8.0% | 6/30/2024 | 750,000 | 1,251,825 | 1.49 |
| | Total health care | | | 1,268,000 | 1,786,505 | 2.13 |
| Industrials | | | | | | |
| 1,250,000 | Axis Auto Finance Inc. | 7.5% | 31/03/23 | 1,250,000 | 1,125,125 | 1.33 |
| | Total industrials | | | 1,250,000 | 1,125,125 | 1.33 |
| Information Technology | | | | | | |
| 900,000 | Baylin Technologies Inc. | 6.5% | 7/10/2023 | 900,000 | 814,050 | 0.97 |
| 300,000 | ExactEarth Ltd | 9.0% | 12/13/023 | 300,000 | 290,400 | 0.34 |
| 200,000 | Faze Clan Inc. | 4.0% | 12/20/2020 | 269,700 | 259,560 | 0.31 |
| 500,000 | Newtopia Inc. | 7.0% | 3/31/2020 | 500,000 | 500,000 | 0.59 |
| 526,000 | Siyata Mobile Inc. | 12.0% | 12/23/2021 | 500,000 | 527,578 | 0.63 |
| | Total information technology | | | 2,469,700 | 2,391,588 | 2.84 |
| Total fixed income-long position | | | | 5,337,700 | 5,680,063 | 6.75 |

| Number of shares/ par value | Description | Cost \$ | Fair value \$ | % of total |
|--|---------------------------------------|------------------|------------------|-------------|
| Canadian equity – long positions: | | | | |
| Consumer discretionary | | | | |
| 1,000,000 | Mimi's Rock Corp | 634,921 | 380,000 | 0.45 |
| | Total consumer discretionary | 634,921 | 380,000 | 0.45 |
| Consumer staples | | | | |
| 200,000 | Clearwater Seafoods Inc. | 1,074,707 | 1,148,000 | 1.36 |
| 613,000 | GreenSpace Brands Inc. | 757,709 | 55,170 | 0.07 |
| 12,000 | Swiss Water Decaffeinated Coffee Inc. | 72,708 | 83,040 | 0.10 |
| 182,000 | Unisync Corp | 600,600 | 629,720 | 0.75 |
| | Total consumer staples | 2,505,724 | 1,915,930 | 2.28 |

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

As at December 31, 2019

| Number of shares/ par value | Description | Cost \$ | Fair value \$ | % of total |
|--------------------------------|--|-------------------|---------------------|---------------|
| Energy | | | | |
| 40,000 | Husky Energy Inc. | 423,070 | 416,800 | 0.49 |
| 900,000 | InPlay Oil Corp | 541,015 | 594,000 | 0.70 |
| 75,000 | Inter Pipeline Ltd | 1,704,235 | 1,690,500 | 2.01 |
| 175,000 | Macro Enterprises Inc. | 728,117 | 656,250 | 0.78 |
| 30,000 | Parkland Fuel Corp | 998,460 | 1,431,300 | 1.70 |
| 168,800 | Strad Inc. | 229,168 | 308,060 | 0.37 |
| 875,000 | Tidewater Midstream and Infrastructure Ltd | 1,121,038 | 1,023,750 | 1.21 |
| 98,200 | Trican Well Service Ltd | 102,888 | 111,948 | 0.13 |
| 300,000 | Wolverine Energy & Infrastructure Inc. | 300,000 | 232,500 | 0.28 |
| | Total energy | 6,147,991 | 6,465,108 | 7.67 |
| Financial | | | | |
| 100,000 | Canaccord Genuity Growth II Corp | 300,000 | 299,000 | 0.35 |
| 1,000,000 | DealNet Capital Corp | 74,499 | 80,000 | 0.09 |
| 600,000 | Diversified Royalty Corp | 1,440,000 | 1,884,000 | 2.24 |
| 100,000 | Libby K Industries Inc. | 10,000 | 13,500 | 0.02 |
| 33,000 | Trisura Group Ltd | 948,945 | 1,328,910 | 1.58 |
| 880,000 | The Westaim Corp | 2,691,544 | 2,332,000 | 2.77 |
| | Total financial | 5,464,988 | 5,937,410 | 7.05 |
| Health care | | | | |
| 150,000 | Careworx Corporation | 277,500 | 450,000 | 0.53 |
| 1,831,700 | Hamilton Thorne Ltd | 1,452,086 | 1,904,968 | 2.26 |
| 145,000 | HLS Therapeutics Inc. | 1,659,223 | 3,697,500 | 4.39 |
| 264,343 | HLS Therapeutics Inc. (preferred shares) | 113,360 | 211,474 | 0.25 |
| 315,000 | Knight Therapeutics Inc. | 2,526,637 | 2,387,700 | 2.83 |
| 500,000 | Lexogene Holdings Inc. | 260,000 | 440,000 | 0.52 |
| 643,253 | Medicure Inc. | 3,370,030 | 2,830,313 | 3.36 |
| 1,127,000 | Nova Leap Health Corp | 336,652 | 484,610 | 0.57 |
| 1,140,000 | Waverley Pharma Inc. | 557,894 | 153,900 | 0.18 |
| | Total health care | 10,553,382 | 12,560,465 | 14.89 |
| Industrials | | | | |
| 65,000 | Aecon Group Inc. | 971,881 | 1,138,800 | 1.35 |
| 730,000 | Avante Logixx Inc. | 1,378,254 | 1,087,700 | 1.29 |
| 20,000 | Boyd Group Services Inc. | 767,946 | 4,040,000 | 4.79 |
| 15,300 | Hardwoods Distribution Inc. | 190,382 | 249,390 | 0.30 |
| 575,000 | H2O Innovation Inc. | 603,750 | 569,250 | 0.68 |
| 1,072,500 | Noble Iron Inc. | 391,800 | 252,038 | 0.30 |
| 632,850 | WEQ Holdings Inc. | - | 82,271 | 0.10 |
| | Total industrials | 4,304,013 | 7,419,449 | 8.81 |

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

As at December 31, 2019

| Number of shares/ par value | Description | Cost \$ | Fair value \$ | % of total |
|---|--------------------------------------|-------------------|---------------------|---------------|
| Information technology | | | | |
| 250,000 | Abaxx Technologies Rstd | 100,000 | 250,000 | 0.30 |
| 600,000 | Baylin Technologies Inc. | 1,299,543 | 1,236,000 | 1.47 |
| 450,000 | Blackline Safety Corp | 1,357,839 | 2,747,250 | 3.26 |
| 334,600 | C-com Satellite Systems Inc. | 354,501 | 565,474 | 0.67 |
| 356,000 | ExactEarth Ltd | 216,797 | 96,120 | 0.11 |
| 224,600 | Intrinsyc Technologies Corp | 346,147 | 377,328 | 0.45 |
| 400,000 | Kraken Robotics Inc. | 258,644 | 240,000 | 0.28 |
| 900,000 | NameSilo Technologies Corp | 383,901 | 450,000 | 0.53 |
| 1,020,000 | Nanotech Security Corp | 1,218,485 | 433,500 | 0.51 |
| 550,000 | Onesoft Solutions Inc. | 128,719 | 341,000 | 0.40 |
| 334,000 | Pepper Esports Inc. | 100,200 | 100,200 | 0.12 |
| 1,000,000 | Photon Control Inc. | 1,014,119 | 1,380,000 | 1.64 |
| 1,952,500 | Quorum Information Technologies Inc. | 1,159,817 | 2,460,150 | 2.92 |
| 900,000 | Redline Communications Group Inc. | 1,062,000 | 1,080,000 | 1.28 |
| 495,000 | Sangoma Technologies Corp | 674,474 | 1,232,550 | 1.46 |
| 650,000 | Metron Capital Corp | 227,500 | 227,500 | 0.27 |
| 259,000 | TeraGo Inc. | 2,261,238 | 2,299,920 | 2.73 |
| 150,000 | Vecima Networks Inc. | 1,435,950 | 1,552,500 | 1.84 |
| 225,000 | VersaPay Corp | 597,158 | 603,000 | 0.72 |
| Total information technology | | 14,197,032 | 17,672,492 | 20.96 |
| Materials | | | | |
| 425,000 | 5N Plus Inc. | 1,288,816 | 1,045,500 | 1.24 |
| 15,000 | Barrick Gold Corp | 333,747 | 361,800 | 0.43 |
| 110,000 | Champion Iron Ltd | 215,547 | 267,300 | 0.32 |
| 1,743,000 | Earth Alive Clean Technologies Inc. | 172,557 | 165,585 | 0.20 |
| 813,400 | EcoSynthetix Inc. | 1,627,857 | 2,155,510 | 2.56 |
| 75,000 | Equinox Gold Corp | 376,293 | 749,250 | 0.89 |
| 2,150,000 | Euro Manganese Inc. | 430,000 | 290,250 | 0.34 |
| 250,000 | Kar Gold Inc. | 17,231 | 1,750 | 0.00 |
| 776,900 | Geodrill Ltd | 1,569,850 | 1,180,888 | 1.40 |
| 22,800 | Winpak Ltd | 1,042,027 | 1,071,144 | 1.27 |
| Total materials | | 7,073,925 | 7,288,977 | 8.65 |
| Real estate | | | | |
| 25,000 | Brookfield Property Partners LP | 628,546 | 593,250 | 0.70 |
| 20,000 | BSR Real Estate Investment Trust | 314,776 | 303,800 | 0.36 |
| 67,200 | Cominar Real Estate Investment Trust | 838,655 | 951,552 | 1.13 |
| 57,257 | Dream Hard Asset Alternatives Trust | 445,683 | 443,742 | 0.53 |
| Total real estate | | 2,227,660 | 2,292,344 | 2.72 |
| Telecommunication services | | | | |
| 322,400 | Trilogy International Partners Inc. | 741,700 | 660,920 | 0.78 |
| Total telecommunication services | | 741,700 | 660,920 | 0.78 |
| Utilities | | | | |
| 250,000 | Maxim Power Corp | 676,745 | 455,000 | 0.54 |
| 155,000 | Polaris Infrastructure Inc. | 1,663,543 | 1,898,750 | 2.25 |
| 75,000 | TransAlta Corp | 609,421 | 696,000 | 0.83 |
| 30,000 | Innergex Renewable Energy Inc. | 449,005 | 505,800 | 0.60 |
| Total utilities | | 3,398,714 | 3,555,550 | 4.22 |
| Total Canadian equities – long positions | | 57,250,050 | 66,148,645 | 78.48 |

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

Year ended December 31, 2019

| Number of shares/ par value | Description | Maturity date | Cost \$ | Fair value \$ | % of total |
|--|-------------------------------------|---------------|------------------|------------------|-------------|
| Foreign equities – long positions: | | | | | |
| Consumer discretionary | | | | | |
| 13,000 | The Walt Disney Company | | 1,998,109 | 2,440,110 | 2.90 |
| | Total consumer discretionary | | 1,998,109 | 2,440,110 | 2.90 |
| Financials | | | | | |
| 60,000 | Bespoke Capital Acquisition Corp | | 788,119 | 756,098 | 0.90 |
| 44,900 | Mercer Park Brand Acquisition Corp | | 586,398 | 571,058 | 0.68 |
| 30,000 | Subversive Capital Acquisition Corp | | 394,535 | 379,217 | 0.45 |
| | Total financials | | 1,769,052 | 1,706,373 | 2.03 |
| Health care | | | | | |
| 37,500 | Zymeworks Inc. | | 679,724 | 2,212,424 | 2.62 |
| | Total health care | | 679,724 | 2,212,424 | 2.62 |
| Information technology | | | | | |
| 35,000 | Fitbit Inc. | | 282,852 | 298,429 | 0.35 |
| 10,000 | Twitter Inc. | | 400,249 | 415,945 | 0.49 |
| 7,500 | Versaci Interactive Gaming | | 134,501 | 131,402 | 0.16 |
| | Total information technology | | 817,602 | 845,776 | 1.00 |
| Total foreign equities - long positions | | | 5,264,487 | 7,204,683 | 8.55 |

Derivatives:

| | | | | | |
|-------------------------------|---|------------|---------------|----------------|-------------|
| Consumer discretionary | | | | | |
| 10,000 | Beyond Meat Inc Put 50 | 1/17/2020 | 33,303 | 518 | 0.00 |
| | Total consumer discretionary | | 33,303 | 518 | 0.00 |
| Financial | | | | | |
| 10,000 | CBOE Volatility Index Calls 19 | 1/22/2020 | 9,869 | 7,138 | 0.01 |
| (12,600) | Genworth MI Canada Inc Put 23.83 | 1/17/2020 | (9,315) | (1,323) | 0.00 |
| 12,600 | Genworth MI Canada Inc Put 29.83 | 1/17/2020 | 21,411 | 1,323 | 0.00 |
| 30,000 | WTS Bespoke Capital Acquisition Corp | 12/31/2024 | 7,961 | 29,201 | 0.03 |
| 107,500 | WTS Mercer Park Brand Acquisition Corp | 5/13/2027 | 28,363 | 110,216 | 0.13 |
| 37,500 | WTS Subversive Capital Acquisition Corp | 8/26/2024 | 9,963 | 51,101 | 0.06 |
| | Total financial | | 68,252 | 197,656 | 0.23 |
| Health care | | | | | |
| 50,000 | Amarin Corp PLC Put 10 | 1/17/2020 | 56,695 | 649 | 0.00 |
| 6,100 | Amarin Corp PLC Put 11 | 1/17/2020 | 2,421 | 158 | 0.00 |
| 75,000 | WTS Captor Cap Corp | 2/12/2020 | - | - | 0.00 |
| 500,000 | WTS Lexagene Holdings | 10/29/2022 | - | 130,000 | 0.15 |
| 75,000 | WTS Profound Medical | 3/20/2023 | 13,500 | 28,875 | 0.03 |
| | Total health care | | 72,616 | 159,682 | 0.18 |
| Industrials | | | | | |
| 750,000 | WTS Axis Auto Finance Inc. | 1/19/2021 | - | - | 0.00 |
| 145,000 | WTS EnWave Corp | 11/15/2022 | 31,900 | 107,663 | 0.13 |
| 287,500 | WTS H2O Innovation Inc. | 11/15/2021 | - | 25,156 | 0.03 |
| 164,500 | WTS Xebec Adsorption Inc. | 7/4/2020 | 3,335 | 90,475 | 0.11 |
| | Total industrials | | 35,235 | 223,294 | 0.27 |

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

Year ended December 31, 2019

| Number of shares/ par value | Description | Maturity date | Cost \$ | Fair value \$ | % of total |
|--|---|---------------|--------------------|--------------------|---------------|
| Information technology | | | | | |
| 4,450,000 | WTS Global UAV Technologies | 6/25/2020 | - | - | 0.00 |
| 500,000 | WTS mCloud Technologies | 3/19/2021 | - | 47,500 | 0.06 |
| 500 | WTS Newtopia Inc. | 5/6/2022 | - | - | 0.00 |
| 142,857 | Newtopia Inc special warrants | Tba | 100,000 | 100,000 | 0.12 |
| 526,000 | WTS Siyata Mobile Inc. | 12/23/2022 | - | 21,040 | 0.02 |
| 1,333,400 | WTS Venzee Technologies Inc. | 4/26/2022 | - | - | 0.00 |
| 750 | WTS Versaci Interactive | 8/22/2020 | - | - | 0.00 |
| Total information technology | | | 100,000 | 168,540 | 0.20 |
| Materials | | | | | |
| 540,000 | WTS Alio Gold Inc. | 1/31/2020 | - | - | 0.00 |
| 2,500,000 | WTS Earth Alive Clean Technologies Inc. | 10/28/2021 | 2,500 | 106,250 | 0.13 |
| Total materials | | | 2,500 | 106,250 | 0.13 |
| Total Derivatives | | | 311,906 | 855,940 | 1.01 |
| Canadian equity – short positions: | | | | | |
| Consumer discretionary | | | | | |
| (2,500) | Alimentation Couche-Tard Inc. | | (105,285) | (103,025) | (0.12) |
| (7,500) | Canada Goose Holdings Inc. | | (452,816) | (352,575) | (0.42) |
| (1,000) | Canadian Tire Corp Ltd | | (148,911) | (139,750) | (0.17) |
| (1,500) | Dollarama Inc. | | (73,595) | (66,945) | (0.08) |
| (4,000) | Great Canadian Gaming Corp | | (192,583) | (172,160) | (0.20) |
| (1,000) | Spin Master Corp | | (43,207) | (39,540) | (0.05) |
| Total consumer discretionary | | | (1,016,397) | (873,995) | (1.04) |
| Financials | | | | | |
| (10,000) | iShares Core S&P/TSX Capped Composite Index ETF | | (256,014) | (271,300) | (0.32) |
| (4,000) | Royal Bank of Canada | | (409,028) | (411,000) | (0.49) |
| Total financials | | | (665,042) | (682,300) | (0.81) |
| Health care | | | | | |
| (5,000) | Aphria Inc | | (67,583) | (33,900) | (0.04) |
| (10,000) | Aurora Cannabis Inc. | | (58,504) | (27,900) | (0.04) |
| (1,000) | Canopy Growth Corp | | (51,923) | (27,310) | (0.03) |
| (5,000) | Trulieve Cannabis Corp | | (68,351) | (76,700) | (0.09) |
| Total health care | | | (246,361) | (165,810) | (0.2) |
| Information technology | | | | | |
| (2,500) | Open Text Corp | | (143,770) | (143,050) | (0.17) |
| Total information technology | | | (143,770) | (143,050) | (0.17) |
| Materials | | | | | |
| (12,000) | Westshore Terminals Investment Corp | | (279,980) | (227,400) | (0.17) |
| Total materials | | | (279,980) | (227,400) | (0.17) |
| Total Canadian equities – short positions | | | (2,351,550) | (2,092,555) | (2.49) |

MAXAM DIVERSIFIED STRATEGIES FUND

Schedule of Investment Portfolio (continued)

Year ended December 31, 2019

| Number of shares/ par value | Description | Cost \$ | Fair value \$ | % of total |
|--|---|------------------|---------------------|---------------|
| Foreign equity – short positions: | | | | |
| | Consumer discretionary | | | |
| (1,000) | Planet Fitness Inc. | (97,829) | (96,920) | (0.11) |
| | Total consumer discretionary | (97,829) | (96,920) | (0.11) |
| | Financials | | | |
| (2,000) | American Express Company | (326,152) | (323,126) | (0.38) |
| | Total financials | (326,152) | (323,126) | (0.38) |
| | Health care | | | |
| (100) | Mettler-Toledo International Inc. | (103,890) | (102,952) | (0.12) |
| (4,000) | PetIQ Inc. | (144,303) | (130,040) | (0.16) |
| | Total health care | (248,193) | (232,992) | (0.28) |
| | Industrials | | | |
| (500) | Cummins Inc. | (121,196) | (116,127) | (0.14) |
| | Total industrials | (121,196) | (116,127) | (0.14) |
| | Information technology | | | |
| (48,000) | Lantronix Inc. | (196,658) | (221,145) | (0.26) |
| | Total information technology | (196,658) | (221,145) | (0.26) |
| | Total foreign equity – short positions | (990,028) | (990,310) | (1.17) |

| Description | Cost \$ | Fair Value \$ | % of Total |
|--|-------------------|---------------------|---------------|
| Bonds and equities | 67,852,237 | 79,033,391 | 93.78 |
| Derivatives | 311,906 | 855,940 | 1.01 |
| Investments sold short | (3,341,578) | (3,082,865) | (3.66) |
| Other assets, less liabilities | 7,478,465 | 7,478,465 | 8.87 |
| Total net asset value attributable to holders of redeemable units | 72,301,030 | 84,284,931 | 100.00 |

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2019

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 24, 2020.

(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 judgments:

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, 2019

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, 2019

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, 2019

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, 2019

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.

As at December 31, 2019, the total outstanding management fees payable to the manager was \$94,597 (2018 - \$117,681).

(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, 2019

4. Related party transactions (continued):

(b) Performance fees (continued):

Series C, 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, 2019, the total outstanding performance fees payable to the manager was \$825 (2018 - nil).

(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, 2019, 103,213 Series A units (2018 - 92,713 Series A units), 22,807 Series B units (2018 - 22,807 Series B Units) and 53,362 Series C units (2018 - 56,712), 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, 2019

5. Redeemable units (continued):

The following units were issued or redeemed during the year:

| December 31, 2019 | | | | | | |
|---------------------------|-----------|---------------|-----------------|-------------------|-----------|---------|
| Series | Opening | Shares issued | Shares redeemed | Shares reinvested | Transfers | Closing |
| Series A - Master | 1,198,373 | - | (143,887) | - | (421,238) | 633,248 |
| Series A - January 2018 | 65,000 | - | (50,000) | - | - | 15,000 |
| Series A - March 2018 | 17,500 | - | - | - | - | 17,500 |
| Series A - April 2018 | 1,000 | - | - | - | - | 1,000 |
| Series A - May 2018 | 3,500 | - | - | - | - | 3,500 |
| Series A - June 2018 | 25,000 | - | - | - | - | 25,000 |
| Series A - July 2018 | 166,000 | - | (40,000) | - | - | 126,000 |
| 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 A - January 2019 | - | - | 25,000 | - | - | 25,000 |
| Series A - March 2019 | - | - | 2,500 | - | - | 2,500 |
| Series A - April 2019 | - | - | 2,500 | - | - | 2,500 |
| Series A - August 2019 | - | - | 1,000 | - | - | 1,000 |
| Series A - September 2019 | - | - | 1,000 | - | - | 1,000 |
| Series A - October 2019 | - | - | 3,500 | - | - | 3,500 |
| Balance, end of year | 1,488,073 | - | (198,387) | - | (421,238) | 868,448 |

The following units were issued or redeemed during the year:

| December 31, 2019 | | | | | | |
|----------------------------|-----------|---------------|-----------------|-------------------|-----------|-----------|
| Series | Opening | Shares issued | Shares redeemed | Shares reinvested | Transfers | Closing |
| Series A2 - September 2014 | 412,782 | 81,233 | (163,592) | 4,291 | - | 334,714 |
| Series A2 - April 2015 | 526,915 | - | - | 5,570 | - | 532,485 |
| Series B - Master | 22,807 | - | (326,887) | - | 699,007 | 394,927 |
| Series C | 872,052 | 222,706 | (317,322) | - | (3,555) | 773,881 |
| Series F | 2,159,104 | 218,254 | (1,363,469) | - | 13,542 | 1,027,431 |
| Series I - May 2016 | 802,814 | - | (8,389) | - | - | 794,425 |
| Series I - November 2016 | 287,005 | - | (2,999) | - | - | 284,006 |
| Series I - April 2017 | 200,876 | - | - | - | - | 200,876 |
| Series I - October 2018 | 200,000 | - | - | - | - | 200,000 |
| Series M | 19,556 | 53,414 | - | - | - | 72,970 |
| Balance, end of year | 5,503,911 | 575,607 | (2,182,658) | 9,861 | 708,994 | 4,615,715 |

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2019

5. Redeemable units (continued):

| 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 | 227,795 | (62,064) | - | (10,783) | 872,052 |
| Series F | 1,586,509 | 849,539 | (287,727) | - | 10,783 | 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 | 1,281,845 | (361,301) | - | - | 4,564,214 |

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2019

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, 2019, 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 8.9% (2018 - 5.5%) of total net assets.

(c) Liquidity risk:

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

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2019

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, 2019, the Fund held interest sensitive assets of \$5,680,063 (2018 - \$5,291,855), approximately 6.7% (2018 - 5.0%) 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, 2019, the Fund held cash and investments of \$7,340,480 (2018 - \$3,124,250) in U.S. dollars.

As at December 31, 2019, 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 \$367,024 (2018 - \$156,226). 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 financial position. The Schedule of Investment Portfolio summarizes the Fund's exposure to other price risk as at December 31, 2019, by providing the market sector breakdown of investments. Possible losses from written options and securities sold short can be unlimited.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2019

7. Financial risk management (continued):

(d) Market risk (continued):

(iii) Other price risk (continued):

For the Fund, the most significant exposure to other price risk arises from its investment in equity securities. As at December 31, 2019, 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 \$7,680,647 (2018 - \$8,814,983), approximately 9.11% of net assets (2018 - 8.36%). 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.

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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2019

8. Fair value of financial instruments (continued):

(a) Valuation models (continued):

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.

MAXAM DIVERSIFIED STRATEGIES FUND

Notes to Financial Statements

Year ended December 31, 2019

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, 2019 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|----------------------|---------------------|------------------|----------------------|
| Assets: | | | | |
| Bonds | \$ - | \$ 5,680,063 | \$ - | \$ 5,680,063 |
| Options/warrants | - | 855,940 | - | 855,940 |
| Investments sold short | (3,082,865) | - | - | (3,082,865) |
| Equities | 71,492,794 | 1,778,264 | 82,270 | 73,353,328 |
| Total assets | \$ 68,409,929 | \$ 8,314,267 | \$ 82,270 | \$ 76,806,466 |

| 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 |

For the years ended December 31, 2019 and 2018 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.

In 2018, 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

Notes to Financial Statements

Year ended December 31, 2019

8. Fair value of financial instruments (continued):

(d) Financial instruments not measured at fair value:

The carrying value of cash and cash equivalents, dividends and interest receivable, subscriptions receivable, redemptions payable, management fees payable, performance fees payable, dividends 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 (2018 - \$77,557).

10. Subsequent event:

The continued worldwide spread of COVID-19 and its impact on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts has resulted in a decline in the global financial market. This is expected to have a material impact on all equity and fixed income portfolios during the first half of 2020, and potentially beyond. The Manager has been monitoring developments in equity and fixed income markets generally, and in connection with the Funds' portfolio in particular. While it is too early to predict the impact of COVID-19 related factors, during a time of increased uncertainty and volatility, it is expected that the performance of all portfolios will be affected in the near term.