

Financial Statements
(Expressed in Canadian dollars)

MAXAM ARBITRAGE FUND

And Independent Auditor's Report thereon

Years ended December 31, 2023 and 2022



KPMG LLP

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Maxam Arbitrage Fund (the "Fund")

Opinion

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

- the statements of financial position as at December 31, 2023 and December 31, 2022
- the statements of comprehensive income for the years then ended
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of material accounting policy information (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 December 31, 2023 and December 31, 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

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



Other Information

The Manager is responsible for the other information. Other information comprises:

- the information included in the Annual Management Report of Fund Performance filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Annual Management Report of Fund Performance filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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

The Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager 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 the Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

Vancouver, Canada
March 28, 2024

MAXAM ARBITRAGE FUND

Statements of Financial Position (Expressed in Canadian dollars) December 31, 2023 and 2022

	2023	2022
ASSETS		
Current assets		
Dividends receivable	\$ 50	\$ 2,061
Subscriptions receivable	92,324	51,694
Investments (note 8)	28,461,451	20,827,589
Receivable for investments sold	87	575,657
Prepaid expenses	4,061	—
	<u>28,557,973</u>	<u>21,457,001</u>
LIABILITIES		
Current liabilities		
Bank indebtedness (note 3)	11,349,679	7,867,310
Management fees payable (note 4)	12,201	8,920
Performance fees payable (note 4)	37,708	32,881
Payable for investments purchased	647,518	1,344,138
Accrued liabilities and other accounts payable	8,542	4,458
Interest and borrow fees payable	64,673	44,115
Investments sold short (note 8)	260,052	46,353
Dividends payable	317	—
Redemptions payable	8,995	19,694
	<u>12,389,685</u>	<u>9,367,869</u>
Net assets attributable to holders of redeemable units	<u>\$ 16,168,288</u>	<u>\$ 12,089,132</u>
Net assets attributable to holders of redeemable units by class		
Class A	\$ 643,785	\$ 984,412
Class AF	265,976	1,049,432
Class F	12,401,052	6,510,302
Class FF	1,547,148	2,190,054
Class I	1,310,327	1,354,932
	<u>\$ 16,168,288</u>	<u>\$ 12,089,132</u>
Number of redeemable units outstanding (note 5)		
Class A	57,432	91,593
Class AF	23,262	96,120
Class F	1,061,789	586,639
Class FF	131,515	196,697
Class I	106,881	118,541

MAXAM ARBITRAGE FUND

Statements of Financial Position (continued)

(Expressed in Canadian dollars)

December 31, 2023 and 2022

		2023		2022
Net assets attributable to holders of redeemable units per unit				
Class A	\$	11.21	\$	10.75
Class AF		11.43		10.92
Class F		11.68		11.10
Class FF		11.76		11.13
Class I		12.26		11.43

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

Approved on behalf of Maxam Capital Management Ltd.:

"Travis Dowle"

Director

"Sean Morrison"

Director

MAXAM ARBITRAGE FUND

Statements of Comprehensive Income

(Expressed in Canadian dollars)

Years ended December 31, 2023 and 2022

	2023	2022
Income		
Dividends	\$ 29,063	\$ 33,290
Foreign exchange gain (loss)	725,643	(1,369,465)
Net realized gain on sale of investments	1,537,135	1,889,417
Net change in fair value of investments	(537,207)	163,672
Other income	278	505
	<u>1,754,912</u>	<u>717,419</u>
Expenses		
Interest and borrow fees	673,755	213,176
Performance fees (note 4)	116,454	40,196
Professional and administration fees	114,115	106,709
Management fees (note 4)	113,340	92,806
Commissions and other portfolio transaction costs	96,678	78,210
Audit fees	27,999	23,915
Legal fees	6,441	48,771
Custodian fees	3,308	4,822
Independent review committee fees	2,000	3,513
Withholding tax	871	1,616
Dividend expense	637	3,269
	<u>1,155,598</u>	<u>617,003</u>
Expenses waived by Manager (note 4)	<u>(110,769)</u>	<u>(150,447)</u>
	<u>1,044,829</u>	<u>466,556</u>
Increase in net assets attributable to holders of redeemable units from operations	<u>\$ 710,083</u>	<u>\$ 250,863</u>
Increase in net assets attributable to holders of redeemable units from operations		
Class A	\$ 30,144	\$ 13,443
Class AF	20,173	16,262
Class F	463,123	122,825
Class FF	106,248	54,063
Class I	90,395	44,270
	<u>\$ 710,083</u>	<u>\$ 250,863</u>
Increase in net assets attributable to holders of redeemable units per unit (note 6)		
Class A	\$ 0.48	\$ 0.17
Class AF	0.60	0.16
Class F	0.59	0.26
Class FF	0.62	0.25
Class I	0.83	0.39

MAXAM ARBITRAGE FUND

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

(Expressed in Canadian dollars)

Years ended December 31, 2023 and 2022

	Balance, beginning of year	Issue of redeemable units	Non taxable switch ins	Redemption of redeemable units	Non taxable switch outs	Increase in net assets from operations	Balance, end of year
2023							
Class A	\$ 984,412	\$ 111,369	\$ —	\$ (476,567)	\$ (5,573)	\$ 30,144	\$ 643,785
Class AF	1,049,432	—	—	(803,629)	—	20,173	265,976
Class F	6,510,302	7,488,049	5,573	(2,065,995)	—	463,123	12,401,052
Class FF	2,190,054	—	—	(749,154)	—	106,248	1,547,148
Class I	1,354,932	15,000	—	(150,000)	—	90,395	1,310,327
	<u>\$ 12,089,132</u>	<u>\$ 7,614,418</u>	<u>\$ 5,573</u>	<u>\$ (4,245,345)</u>	<u>\$ (5,573)</u>	<u>\$ 710,083</u>	<u>\$ 16,168,288</u>

	Balance, beginning of year	Issue of redeemable units	Non taxable switch ins	Redemption of redeemable units	Non taxable switch outs	Increase in net assets from operations	Balance, end of year
2022							
Class A	\$ 330,123	\$ 881,895	\$ —	\$ (66,543)	\$ (174,506)	\$ 13,443	\$ 984,412
Class AF	1,193,410	—	—	(44,720)	(115,520)	16,262	1,049,432
Class F	2,723,271	5,366,214	185,284	(1,887,292)	—	122,825	6,510,302
Class FF	2,783,928	—	104,742	(752,679)	—	54,063	2,190,054
Class I	1,120,662	190,000	—	—	—	44,270	1,354,932
	<u>\$ 8,151,394</u>	<u>\$ 6,438,109</u>	<u>\$ 290,026</u>	<u>\$ (2,751,234)</u>	<u>\$ (290,026)</u>	<u>\$ 250,863</u>	<u>\$ 12,089,132</u>

MAXAM ARBITRAGE FUND

Statements of Cash Flows

(Expressed in Canadian dollars)

Years ended December 31, 2023 and 2022

	2023	2022
Cash provided by (used in):		
Operating Activities		
Increase in net assets attributable to holders of redeemable units from operations	\$ 710,083	\$ 250,863
Adjustments for non-cash items		
Foreign exchange (gain) loss	(725,643)	1,369,465
Net realized gain on sale of investments	(1,537,135)	(1,889,417)
Net change in fair value of investments	537,207	(163,672)
Change in non-cash balances		
Change in dividends receivable	2,011	(2,061)
Change in receivable for investments sold	575,570	(563,710)
Change in prepaid expenses	(4,061)	280
Change in management fees payable	3,281	3,510
Change in performance fees payable	4,827	11,450
Change in payable for investments purchased	(696,620)	927,195
Change in accrued liabilities and other accounts payable	4,084	1,248
Change in interest and borrow fees payable	20,558	37,784
Change in dividends payable	317	—
Proceeds from sale of investments	74,713,655	54,573,395
Purchase of investments	(81,133,890)	(61,857,588)
Cash used in operating activities	(7,525,756)	(7,301,258)
Financing Activities		
Proceeds from issue of redeemable units	7,573,788	6,391,415
Payment of redemption of redeemable units	(4,256,044)	(2,731,540)
Cash provided by financing activities	3,317,744	3,659,875
Decrease in bank indebtedness during the year	(4,208,012)	(3,641,383)
Foreign exchange gain (loss) on cash	725,643	(1,369,465)
Bank indebtedness, beginning of period	(7,867,310)	(2,856,462)
Bank indebtedness, end of period	\$ (11,349,679)	\$ (7,867,310)
Supplemental information*		
Interest paid	\$ 650,863	\$ 160,837
Dividends paid	320	3,269
Dividends received, net of withholding taxes	30,204	29,613

*Included as a part of cash flows from operating activities

MAXAM ARBITRAGE FUND
Schedule of Investment Portfolio
(Expressed in Canadian dollars)
As at December 31, 2023

Description	Currency	Number of shares	Average cost	Fair value
Investments owned (176.03%)				
Equities (176.03%)				
Basic Materials (1.72%)				
Osino Resources Corp.	CAD	75,000 \$	108,085 \$	105,000
United States Steel Corp.	USD	850	43,215	54,604
Vanstar Mining Resources Inc.	CAD	180,000	117,526	118,800
Total Basic Materials			268,826	278,404
Communications (0.47%)				
Consolidated Communications Holdings Inc.	USD	13,310	71,443	76,452
Total Communications			71,443	76,452
Consumer, Cyclical (2.36%)				
Capri Holdings Ltd.	USD	1,350	94,916	89,558
Sovos Brands Inc.	USD	9,175	279,701	266,896
Spirit Airlines Inc.	USD	1,125	19,971	24,347
Total Consumer, Cyclical			394,588	380,801
Consumer, Non-cyclical (6.31%)				
Albertsons Cos Inc.	USD	675	20,039	20,500
Karuna Therapeutics Inc.	USD	306	128,304	127,888
Logistec Corp.	CAD	2,790	179,040	186,930
Neighbourly Pharmacy Inc.	CAD	5,310	85,587	89,155
Olink Holding AB	USD	450	14,990	14,944
Taro Pharmaceutical Industries Ltd.	USD	5,400	300,100	297,909
Textainer Group Holdings Ltd.	USD	4,343	286,069	282,148
Total Consumer, Non-cyclical			1,014,129	1,019,474
Diversified (158.11%)				
A SPAC II Acquisition Corp.	USD	93	1,344	1,337
Agriculture & Natural Solutions Acquisition Corp.	USD	17,100	236,923	229,184
Agrinam Acquisition Corp.	USD	26,100	371,117	374,793
Ai Transportation Acquisition Corp.	USD	5,400	72,966	72,802
Alchemy Investments Acquisition Corp 1	USD	4,991	66,195	69,891
AlphaVest Acquisition Corp.	USD	9,335	133,912	132,016
Andretti Acquisition Corp.	USD	35,365	519,227	507,604
APx Acquisition Corp I	USD	18,680	284,143	275,519
Ares Acquisition Corp II	USD	39,230	518,547	540,805
ARYA Sciences Acquisition Corp IV	USD	1,525	22,101	21,949
Bannix Acquisition Corp.	USD	43,836	624,620	625,718
Battery Future Acquisition Corp.	USD	39,631	583,370	570,144

MAXAM ARBITRAGE FUND

Schedule of Investment Portfolio (continued)

(Expressed in Canadian dollars)

As at December 31, 2023

Description	Currency	Number of shares	Average cost	Fair value
Bayview Acquisition Corp.	USD	5,670 \$	75,783 \$	75,768
Blockchain Coinvestors Acquisition Corp I	USD	31,426	461,907	452,311
Bowen Acquisition Corp.	USD	19,997	272,844	272,500
Bukit Jalil Global Acquisition 1 Ltd.	USD	4,179	56,845	57,499
BurTech Acquisition Corp.	USD	40,011	582,838	567,685
Canna-Global Acquisition Corp.	USD	12,261	180,609	176,148
CARTESIAN GROWTH CORP II	USD	2,280	33,315	32,981
Cartica Acquisition Corp.	USD	41,166	599,758	593,314
Chain Bridge I	USD	26,860	396,518	384,820
Churchill Capital Corp VII	USD	19,743	268,189	273,731
Colombier Acquisition Corp II	USD	20,975	287,424	279,180
Compass Digital Acquisition Corp.	USD	35,777	513,035	503,125
Crown PropTech Acquisitions	USD	51,791	735,570	728,326
dMY Squared Technology Group Inc.	USD	41,775	599,671	585,267
DP Cap Acquisition Corp I	USD	5,404	78,560	77,708
DUET Acquisition Corp.	USD	35,792	506,683	518,932
Edify Acquisition Corp.	USD	32,598	450,388	479,726
Embrace Change Acquisition Corp.	USD	159	2,327	2,299
ESH Acquisition Corp.	USD	3,000	39,493	40,544
EVe Mobility Acquisition Corp.	USD	38,911	564,239	555,675
FG Acquisition Corp.	USD	12,420	160,984	162,360
Fortune Rise Acquisition Corp.	USD	9,218	134,938	133,587
Four Leaf Acquisition Corp.	USD	30,710	424,928	429,030
Global Lights Acquisition Corp.	USD	27,182	371,674	361,796
Global Partner Acquisition Corp II	USD	37,527	529,049	548,542
Golden Star Acquisition Corp.	USD	22,544	306,223	310,185
Haymaker Acquisition Corp 4	USD	35,108	477,858	476,332
HH&L Acquisition Co.	USD	40,777	593,098	580,438
Inflection Point Acquisition Corp II	USD	15,000	198,013	204,604
Integral Acquisition Corp 1	USD	16,008	234,427	228,605
Investcorp India Acquisition Corp.	USD	4,660	69,032	67,625
Israel Acquisitions Corp.	USD	29,575	423,693	419,422
Jaws Mustang Acquisition Corp.	USD	43,518	646,630	626,350
Keen Vision Acquisition Corp.	USD	29,684	404,967	405,485
Kensington Capital Acquisition Corp V	USD	41,933	607,918	591,910
Kernel Group Holdings Inc.	USD	31,450	433,528	446,012
Nabors Energy Transition Corp II	USD	32,536	445,687	447,021
Oak Woods Acquisition Corp.	USD	36,487	502,060	508,532
OCA Acquisition Corp.	USD	25,868	358,878	369,412
Onyx Acquisition Co I	USD	6,110	92,239	88,747
Pearl Holdings Acquisition Corp.	USD	43,379	629,817	613,467

MAXAM ARBITRAGE FUND

Schedule of Investment Portfolio (continued)

(Expressed in Canadian dollars)

As at December 31, 2023

Description	Currency	Number of shares	Average cost	Fair value
Perception Capital Corp III	USD	31,558 \$	452,980 \$	440,877
Pono Capital Three Inc.	USD	40,515	583,630	568,149
Quetta Acquisition Corp.	USD	30,620	417,370	408,769
RF Acquisition Corp.	USD	40,408	577,278	572,518
Rigel Resource Acquisition Corp.	USD	21,164	307,799	306,288
Ross Acquisition Corp II	USD	1,340	20,045	19,269
Roth CH Acquisition Co.	USD	32,362	485,020	468,774
SDCL EDGE Acquisition Corp.	USD	39,960	586,767	568,809
SK Growth Opportunities Corp.	USD	39,635	573,014	566,276
Southport Acquisition Corp.	USD	40,500	584,190	568,741
Spark I Acquisition Corp.	USD	19,900	271,404	266,448
Spring Valley Acquisition Corp II	USD	39,170	572,485	559,115
Swiftmerge Acquisition Corp.	USD	15,033	217,332	214,681
TMT Acquisition Corp.	USD	30,154	407,259	419,869
Trailblazer Merger Corp I	USD	41,800	563,809	577,338
Vector Acquisition Corp II	USD	7,145	103,373	100,007
Zalatoris Acquisition Corp.	USD	37,800	542,754	533,321
Zalatoris II Acquisition Corp.	USD	21,738	312,364	306,845
Total Diversified			25,764,975	25,564,857
Energy (0.53%)				
Hess Corp.	USD	450	86,716	85,660
Total Energy			86,716	85,660
Industrial (1.77%)				
Daseke Inc.	USD	1,800	19,333	19,252
Hollsys Automation Technologies Ltd.	USD	7,675	249,394	267,043
Total Industrial			268,727	286,295
Technology (4.76%)				
Docebo Inc.	USD	99	6,400	6,324
Farmers Edge Inc.	CAD	49,950	11,506	11,988
NEOGAMES SA	USD	5,514	208,214	208,454
Q4 Inc.	CAD	32,670	195,438	196,020
Splunk Inc.	USD	1,463	296,136	294,313
StarTek Inc.	USD	9,000	51,720	52,409
Total Technology			769,414	769,508
Total Equities			28,638,818	28,461,451
Total investments owned			28,638,818	28,461,451

MAXAM ARBITRAGE FUND

Schedule of Investment Portfolio (continued)

(Expressed in Canadian dollars)

As at December 31, 2023

Description	Currency	Number of shares	Proceeds on short sale	Fair value
Investments sold short (-1.61%)				
Equities (-1.61%)				
Basic Materials (-1.06%)				
Dundee Precious Metals Inc.	CAD	(6,000) \$	(53,845) \$	(50,880)
IAMGOLD Corp.	CAD	(36,090)	(120,278)	(120,541)
Total Basic Materials			(174,123)	(171,421)
Energy (-0.55%)				
Chevron Corp.	USD	(450)	(89,714)	(88,631)
Total Energy			(89,714)	(88,631)
Total Equities			(263,837)	(260,052)
Total investments sold short			(263,837)	(260,052)
Commissions and other portfolio transaction costs			(24,461)	–
Net investments owned (174.42%)			28,350,520	28,201,399
Other liabilities, net (-74.42%)				(12,033,111)
Net Assets Attributable to Holders of Redeemable Units (100%)				16,168,288

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2023 and 2022

1. Reporting entity:

Maxam Arbitrage Fund (the "Fund") was formed on August 11, 2020 as an open-end investment trust governed under the laws of the Province of British Columbia pursuant to a master trust agreement dated August 11, 2020 (the "Trust Agreement"). The Fund commenced operations on October 1, 2020. The address of the Fund's registered office is at 330 - 609 Granville Street, Vancouver, BC, Canada, V7Y 1A1. The Fund has filed a simplified prospectus with the securities regulatory authorities in each of the provinces and territories of Canada, other than Quebec, and is subject to certain standard investment restrictions and practices contained in securities legislation, including National Instrument 81-102 *Investment Funds* ("NI 81-102").

Maxam Capital Management Ltd. (the "Manager" and the "Trustee"), a company incorporated under the laws of British Columbia, is the manager and the trustee of the Fund. 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. SGGG Fund Services Inc. (the "Administrator") acts as the record-keeper and the administrator of the Fund.

The fundamental investment objective of the Fund is to generate consistent, positive returns, while minimizing volatility and correlation with equity markets by investing in publicly traded securities in Canada, the United States and other foreign jurisdictions. The Manager employs an active and opportunistic investment strategy with a focus on merger arbitrage and other event-driven hedged opportunities. The Fund invests primarily in small, mid and large-capitalization companies trading on North American exchanges and may also invest in compelling opportunities in other developed markets.

The Fund falls within the definition of an "alternative mutual fund" set out in NI 81-102 as it is permitted to use strategies generally prohibited by other types of mutual funds, such as: (i) the ability to invest more than 10% of its net asset value in securities of a single issuer, either directly or through the use of specified derivatives; (ii) the ability to borrow cash, up to 50% of its net asset value, to use for investment purposes; (iii) the ability to sell securities short (the combined level of cash borrowing and short selling is limited to 50% of its net asset value in aggregate), and; (iv) the ability to use leverage with gross aggregate exposure to borrowing, short selling and specified derivatives up to 300% of its net asset value, among other things.

On August 2, 2022 the Fund was granted exemptive relief by the British Columbia Securities Commission from some of the investment restrictions required under NI 81-102. Specifically, the relief will increase the maximum allowable aggregate value of short sales to 100% of NAV (previously 50%); increase the maximum aggregate cash borrowing limit to 100% of NAV (previously 50%); and increase the limit of aggregate value of securities sold short combined with cash borrowing by the Fund to 100% (previously 50%).

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2023 and 2022

2. Basis of preparation:

(a) Statement of compliance:

The financial statements of the Fund have been prepared in compliance with IFRS Accounting Standards.

The financial statements were authorized for issue by the Manager on March 28, 2024.

(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 Accounting Standards 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.

3. Material accounting policy information:

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. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statement of comprehensive income.

Financial assets are derecognized only when the contractual rights to the cash flows from the from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Fund derecognizes financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire.

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2023 and 2022

3. Material accounting policy information (continued):

(a) Financial instruments (continued):

(i) Recognition and measurement (continued):

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 and 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 and 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.

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 FVTPL, such as derivatives liabilities and investments sold short. The Fund may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2023 and 2022

3. Material accounting policy information (continued):

(a) Financial instruments (continued):

(ii) Fair value through profit or 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 investments owned and investments sold short 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 dividends receivable, subscriptions receivable, receivable for investments sold, bank indebtedness, management fees payable, performance fees payable, payable for investments purchased, accrued liabilities and other accounts payable, interest and borrow fees payable, dividends payable and redemptions payable as amortized cost.

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.

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2023 and 2022

3. Material accounting policy information (continued):

(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) Translation of foreign currency:

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 weighted average cost basis of the respective investments.

(e) Income and expense allocation:

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

(f) Commissions and other portfolio transaction costs:

Commissions and other portfolio transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Such costs are expensed and are included in commissions and other portfolio transaction costs in the statement of comprehensive income.

(g) Cost of investments:

The cost of investments represents the amount paid for each security and is determined on an average cost basis excluding commissions and other portfolio transaction costs.

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2023 and 2022

3. Material accounting policy information (continued):

(h) Net assets attributable to holders of redeemable units per unit:

The net assets attributable to holders of redeemable units per unit on a measurement date is calculated by dividing the net assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class before giving effect to redemptions or subscriptions on that date.

(i) Increase in net assets attributable to holders of redeemable units per unit:

Increase in net assets attributable to holders of redeemable units per unit is based on the increase in net assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the year.

(j) 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.

(k) Derivative transactions:

The Fund may use derivative contracts to manage risks associated with the investments. The derivatives are classified as FVTPL and, as a result, the contracts are measured at fair value on the valuation date and the resulting gains and losses, both realized and unrealized, are recognized in the statement of comprehensive income.

(l) Issuance costs:

The sales commissions paid to selling agents for the sale and distribution of the Fund's Class A and Class AF units are recorded as issuance costs in the statement of changes in net assets attributable to holders of redeemable units and is deducted from the net assets attributable to holders of redeemable units.

(m) Cash and cash equivalents and bank indebtedness:

Cash comprises cash on hand and demand deposits at financial institutions. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank indebtedness is cash borrowing using a margin account at the Fund's prime broker. Cash and cash equivalents and bank indebtedness are recorded at amortized cost which approximates fair value.

(n) New standards and interpretations not yet adopted:

The Fund has determined there are no IFRS Accounting Standards that are issued but not yet effective that could materially impact the Fund's financial statements.

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2023 and 2022

3. Material accounting policy information (continued):

(o) Changes in material accounting policies:

The Fund has consistently applied the above accounting policies to all periods presented in these financial statements. In addition, the Fund adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. The amendments require the disclosure of 'material' rather than 'significant' accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in certain instances.

4. Related party transactions:

(a) Management fees:

The Fund pays a management fee to the Manager for the management of the Fund. The management fee is calculated and accrued daily for each class of units based on 1/365 of the annual management fee multiplied by the net asset value of the class of units, plus applicable taxes. The management fee is payable on the last day of each calendar month. The fees for each class of units are as follows:

Class A	1.90%
Class F	0.90%
Class AF	1.45%
Class FF	0.45%

The management fee for Class I units is negotiated with the Manager by individual Class I unitholders and paid directly to the Manager by each unitholder, outside the Fund. Management fees are subject to applicable taxes, including GST/HST.

As at December 31, 2023, the total outstanding management fees payable to the Manager was \$12,201 (2022 - \$8,920). The total management fees expense for the year ended December 31, 2023 was \$113,340 (2022 - \$92,806).

(b) Performance fees:

The Manager receives a performance fee plus GST/HST and any other applicable taxes for each Performance Fee Determination Period equal to 15% of the Net Profit (as defined below) of Class A, F, AF and FF units, subject to the High Water Mark (as defined below).

The "Performance Fee Determination Period" means (i) each calendar quarter for those investors that remain in the Fund at the end of each quarterly period, and (ii) the period from the beginning of a calendar quarter until the redemption date for those investors that redeem prior to the end of a calendar quarter.

"Net Profit" means, in respect of each class of units of the Fund for any Performance Fee Determination Period, the amount calculated by deducting the relevant class net asset value per unit on the first business day of that Performance Fee Determination Period for the applicable class from the class net asset value per unit on the last business day of that Performance Fee Determination Period for that class and multiplying the resulting amount by the total number of units of such class outstanding at the close of business on the last business day in that Performance Fee Determination Period.

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2023 and 2022

4. Related party transactions (continued) :

(b) Performance fees (continued):

No performance fee shall be paid in respect of a class unless the class net asset value per unit for that class exceeds the highest class net asset value per unit in respect of which a performance fee has been previously paid for that class (the "High Water Mark") and, in such circumstances, a performance fee shall be paid on that portion of the Net Profit that exceeds the High Water Mark.

Class I unitholders may negotiate a performance fee to be paid by the unitholder to the Manager directly that is different than the one described above or may pay no performance fee at all, as determined by the Manager in its discretion.

As at December 31, 2023, the total outstanding performance fees payable to the Manager was \$37,708 (2022 - \$32,881). The total performance fees expense for the year ended December 31, 2023 was \$116,454 (2022 - \$40,196).

(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, 2023, 1,767 (2022 - 1,767) Class A units, 6,886 (2022 - 6,886) Class AF units, 11,645 (2022 - 9,450) Class F units, 5,579 (2022 - 5,579) Class FF units and 99,459 (2022 - 98,165) Class I units of the Fund were owned by the Manager, or its officers and directors.

(d) Fees reimbursements:

The Fund reimburses the Manager for administration fees paid by the Manager on behalf of the Fund. The Manager, at its discretion, may reduce or waive administration fees and reimburse the Fund for any expenses. For the year ended December 31, 2023, the Manager absorbed \$110,769 of the Fund's expenses (2022 - \$150,447).

5. Redeemable units of the Fund:

The Fund is authorized to issue an unlimited number of redeemable units in an unlimited number of classes. The Fund currently has five classes of units: Class A, Class F, Class AF, Class FF, and Class I. Class AF and Class FF are Founders classes. Class A and Class AF units are available to all investors. Class F and Class FF units have lower fees than Class A and Class AF units and are usually only available to investors who have fee-based accounts with dealers who have signed an agreement with the Manager. Class I units are only available to private or institutional investors who have entered into an agreement with the Manager and meet certain other conditions.

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

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5. Redeemable units of the Fund (continued):

The following units were issued or redeemed during the years ended December 31, 2023, and 2022:

	Opening	Units issued	Non taxable switch-ins	Units redeemed	Non taxable switch-outs	Closing
2023						
Class A	91,593	10,101	—	(43,748)	(514)	57,432
Class AF	96,120	—	—	(72,858)	—	23,262
Class F	586,639	656,761	498	(182,109)	—	1,061,789
Class FF	196,697	—	—	(65,182)	—	131,515
Class I	118,541	1,294	—	(12,954)	—	106,881
2022						
Class A	31,060	83,186	—	(6,250)	(16,403)	91,593
Class AF	111,014	—	—	(4,172)	(10,722)	96,120
Class F	250,388	491,903	16,979	(172,631)	—	586,639
Class FF	256,188	—	9,598	(69,089)	—	196,697
Class I	101,395	17,146	—	—	—	118,541

6. Increase in net assets attributable to holders of redeemable units per unit

The increase in net assets attributable to holders of redeemable units per unit for the years ended December 31, 2023, and 2022 is calculated as follows:

	Increase in net assets attributable to holders of redeemable units from operations	Weighted average of redeemable units outstanding during the year	Increase in net assets attributable to holders of redeemable units per unit
December 31, 2023			
Class A	\$ 30,144	62,293	\$ 0.48
Class AF	20,173	33,517	0.60
Class F	463,123	784,115	0.59
Class FF	106,248	170,703	0.62
Class I	90,395	108,976	0.83
December 31, 2022			
Class A	\$ 13,443	77,399	\$ 0.17
Class AF	16,262	100,996	0.16
Class F	122,825	471,205	0.26
Class FF	54,063	219,198	0.25
Class I	44,270	114,286	0.39

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2023 and 2022

7. Financial risk management:

(a) Risk management framework:

The Fund's investment activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate risk, currency risk and other price risk) and leverage risk. 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. The Fund does not hold any assets that are subject to significant credit risk. The Fund's manager actively evaluates the credit quality of its investments and seeks to minimize the risk of counterparty default. As at December 31, 2023 and 2022 the Fund did not hold any debt securities and derivative contracts. All assets of the Fund are custodied with Schedule I institutions.

(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 daily 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. As at December 31, 2023 and 2022, the Fund primarily invests in securities that are traded in active markets and can be readily disposed of.

(d) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Fund's income or the fair value of its holdings of financial instruments. The Manager aims to manage the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Fund's holdings, market events and overall economic conditions.

MAXAM ARBITRAGE FUND

Notes to Financial Statements
(Expressed in Canadian Dollars)

Years ended December 31, 2023 and 2022

7. Financial risk management (continued):

(d) Market risk (continued):

(i) Interest rate risk:

Interest rate risk is the risk that the fair value of the Fund's interest-bearing investments will fluctuate due to changes in prevailing interest rates. The longer the term to maturity, all else being equal, the more sensitive a security is to interest rate risk. The Fund pays interest on bank indebtedness to its prime broker based on prevailing overnight interest rates. As at December 31, 2023, the Fund had net bank indebtedness of \$11,349,679 (2022 - \$7,867,310).

As at December 31, 2023 and 2022, the Fund did not hold any interest sensitive assets.

(ii) Currency risk:

Currency risk is the risk that the value of bank indebtedness and 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, 2023 the Fund held U.S. dollar denominated investments net of U.S. dollar bank indebtedness of \$262,699 (2022 - \$220,881).

As at December 31, 2023, 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 decreased or increased, respectively, by approximately \$13,135 (2022 - \$11,044). 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 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, 2023, by providing the market sector breakdown of investments. Possible losses from 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, 2023 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 \$2,820,140 (2022 - \$2,078,124), approximately 17% (2022 - 17%) of net assets. In practice the actual trading results may differ and the difference could be material.

MAXAM ARBITRAGE FUND

Notes to Financial Statements
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7. Financial risk management (continued):

(e) Leverage risk:

When the Fund makes investments in derivatives, borrows cash for investment purposes, or uses physical short sales on equities, fixed income securities or other portfolio assets, leverage may be introduced into the Fund. Leverage occurs when the Fund's aggregate gross exposure to underlying assets is greater than the amount invested. Leverage may increase volatility, may impair the Fund's liquidity and may cause the Fund to liquidate positions at unfavorable times.

The aggregate gross exposure of the Fund, to be calculated as the sum of the following, must not exceed three times the Fund's net asset value: (i) the aggregate value of the Fund's outstanding indebtedness under any borrowing agreements; (ii) the aggregate market value of physical short sales on equities, fixed income securities or other portfolio assets; and (iii) the aggregate notional value of the Fund's specified derivatives positions excluding any specified derivatives used for hedging purposes.

During the year ended December 31, 2023, the Fund's lowest and highest aggregate gross exposure was 146.8% (July 26, 2023) and 199.4% (March 1, 2023) of the Fund's net asset value, respectively. The primary source of leverage was cash borrowing. During the year ended December 31, 2023, the Fund's range of cash borrowing was \$6,417,188 to \$13,900,100 (2022 - \$3,416,293 to \$11,086,142). The low and high end of the range are as a result of the Fund's investing activities and timing of subscriptions and/or redemptions. The Fund's strategy is outlined in the Simplified Prospectus.

The Manager monitors, on a daily basis, that the Fund's aggregate gross exposure is less than three times the Fund's net asset value.

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.

MAXAM ARBITRAGE FUND

Notes to Financial Statements
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8. Fair value of financial instruments (continued):

(a) Valuation models (continued):

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

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

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

Level 3: inputs that are unobservable.

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.

Observable prices and model inputs are usually available in the market for listed equity securities. 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.

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.

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

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

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

MAXAM ARBITRAGE FUND

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Years ended December 31, 2023 and 2022

8. Fair value of financial instruments (continued):

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

All fair value measurements below are recurring.

December 31, 2023:

	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ 25,075,294	\$ 3,386,157	\$ –	\$ 28,461,451
	\$ 25,075,294	\$ 3,386,157	\$ –	\$ 28,461,451
Liabilities				
Equities	\$ 260,052	\$ –	\$ –	\$ 260,052
	\$ 260,052	\$ –	\$ –	\$ 260,052

December 31, 2022:

	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ 19,875,838	\$ 947,173	\$ –	\$ 20,823,011
Warrants	–	4,578	–	4,578
	\$ 19,875,838	\$ 951,751	\$ –	\$ 20,827,589
Liabilities				
Equities	\$ 46,353	\$ –	\$ –	\$ 46,353
	\$ 46,353	\$ –	\$ –	\$ 46,353

There were no significant transfers between the levels during the year ended December 31, 2023.

During the year ended December 31, 2022, the level of certain securities changed from level 1 to level 2 due to limited trading activity on public exchanges. As at December 31, 2022, the fair values of these securities was \$196,879.

(c) Financial instruments not measured at fair value:

The carrying values of dividends receivable, subscriptions receivable, receivable for investments sold, bank indebtedness, management fees payable, performance fees payable, payable for investments purchased, accrued liabilities and other accounts payable, interest and borrow fees payable, dividends payable and redemptions payable approximate their fair values given their short-term nature.

MAXAM ARBITRAGE FUND

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9. Derivative financial instruments:

The Fund holds the following derivative instruments:

Warrants:

A warrant is a contractual arrangement under which the issuer grants the holder the right, but not the obligation, either to buy at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price directly from the issuer of the underlying securities. The Fund is exposed to price risk on purchased warrants only to the extent of their carrying amount, which is their fair value.

The fund does not have any investments in warrants as at December 31, 2023.

The following table detail the Fund's investments in warrants as at December 31, 2022:

Description	Maturity Date	Strike price	Notional Amount	Fair value
Saturn Oil & Gas Inc.	July 7, 2023	\$ 3.20	\$ 16,000	\$ 888
Tidewater Midstream and Infrastructure Ltd.	August 16, 2024	\$ 1.44	\$ 44,280	\$ 3,690
				\$ 4,578

10. Involvement with unconsolidated structured entities:

The Fund did not hold any interests in unconsolidated structured entities at December 31, 2023 and 2022.

11. Income taxes:

The Fund has non-capital losses available for utilization against taxable income in future years of \$331,395 (2022 - \$50,749).

The Fund has \$nil (2022 - \$nil) net capital losses available to be carried forward at December 31, 2023. Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years.

Dividend income of \$9,130 (2022: \$13,377) and interest income of \$nil (2022: \$nil) received by the Fund is subject to withholding tax imposed in the country of origin. Such income is recorded on a gross basis and the related withholding taxes are shown separately in the Statements of Comprehensive Income. During the year ended December 31, 2023, the average statutory tax rate was 10.55% (2022: 11.54%).

12. 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.

13. Fees paid to Auditors:

For the year ended December 31, 2023, fees incurred to KPMG LLP for the audit of the financial statements of the Canadian Reporting Issuer funds within Maxam Capital Management Ltd. were \$84,500.