

April 30, 2019

## CONFIDENTIAL OFFERING MEMORANDUM

*The securities referred to in this Offering Memorandum are being offered on a private placement basis. This Offering Memorandum constitutes an offering of securities only in those jurisdictions, and to those persons, where, and to whom, they may be lawfully offered for sale. The Offering Memorandum is not, and under no circumstances is to be construed as, a prospectus or advertisement or a public offering of these securities. The securities offered under this Offering Memorandum qualify for distribution in the jurisdictions in which they are offered pursuant to exemptions under securities laws in those jurisdictions.*

*This Offering Memorandum is for the confidential use of only those persons to whom it is transmitted in connection with this offering. By their acceptance of this Offering Memorandum, recipients agree that they will not transmit, reproduce or make available to anyone, other than their professional advisers, this Offering Memorandum or any information contained therein. No person has been authorized to give any information or to make any representation not contained in this Offering Memorandum. Any such information or representation which is given or received must not be relied upon. The Deans Knight Income Fund may be considered under applicable securities laws to be a "connected issuer" of Deans Knight Capital Management Ltd.*

*In this Offering Memorandum, "Fund" means the Deans Knight Income Fund; "you", "your", "unitholder" and "investor" mean you and all other investors in units of the Fund; "we", "us", "our", "Deans Knight" and the "Manager" mean Deans Knight Capital Management Ltd., the manager, promoter and portfolio advisor of the Fund.*

### The Issuer

### Continuous Offering

## DEANS KNIGHT INCOME FUND

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### SERIES A, SERIES F, SERIES K, SERIES L AND SERIES O TRUST UNITS

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The Deans Knight Income Fund is an open-end investment fund established under the laws of British Columbia as a trust. **Units of the Fund do not trade on any exchange or market.** The Fund is not a reporting issuer under applicable securities laws and does not file documents electronically via SEDAR (other than reports of exempt distribution in certain jurisdictions).

### The Offering

Series A, Series F, Series K, Series L and Series O units of the Fund are offered for sale on a private placement basis in each of the provinces and territories of Canada. The price per unit will be based on the Series A, Series F, Series K, Series L or Series O net asset value per unit, as the case may be, on the purchase date. See the section below called *Summary of the Trust Indenture - Determination of Series Net Asset Value*. **There is no minimum number of units of any series that will be sold as part of this offering. This means that you may be the only purchaser of units. Funds available under the offering may not be sufficient to accomplish our proposed objectives.** There is also no maximum number of units of any series that may be issued as part of this offering.

Each investor must invest an amount equal to the minimum investment amount established by us from time to time for initial and subsequent investments. As at the date of this Offering Memorandum, the minimum initial investment amounts will generally be as follows:

Unit Series	Minimum Initial Investments
Series A	\$25,000
Series F	\$25,000
Series K	\$25,000
Series L	\$25,000
Series O	\$150,000

However, the minimum initial investment amounts may be greater than the amounts identified above, depending on the jurisdiction where you live and whether you qualify as an “accredited investor” within the meaning of applicable securities laws. See the section below called *Investing in Units* for additional detail.

For subsequent investments, in most cases the minimum investment amount is \$5,000, depending on the amount of your initial investment, the net asset value of your existing investment at the time you make the additional investment, the jurisdiction where you live and whether you qualify as an “accredited investor” within the meaning of applicable securities laws. See the section below called *Investing in Units* for additional detail.

You must pay the full subscription price for the units at the time of purchase by certified cheque or other means acceptable to us. Units of the Fund are sold on a continuous basis and may be purchased on the last business day of each month and such other dates as we may determine from time to time. However, we may close the Fund to new investors from time to time. See section below called *Investing in Units*.

There are important tax consequences associated with an investment in units of the Fund. See the section below called *Canadian Federal Income Tax Considerations*.

We have not hired any agent or underwriter to sell units on our behalf. However, units may be sold through registered dealers.

### **Resale Restrictions**

You will be restricted from selling your units to other investors for an indefinite period. However, you will be able to require the Fund to redeem your units at certain times if you follow the procedures we have established. See the section below called *Resale Restrictions*.

### **Purchasers' Rights**

You have two business days to cancel your agreement to purchase units. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the purchase agreement. See the section below called *Purchasers' Rights*.

**No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See the section below called *Risk Factors*.**

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## FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements with respect to the Fund. In particular, the information contained in the section called *Investment Objective, Policies and Restrictions* may constitute “forward-looking information” for the purpose of securities legislation, as it contains statements of the intended course of conduct and future operations of the Fund. These statements are based on assumptions made by us about the success of the Fund’s investment strategies in certain market conditions, relying on the experience of our officers and employees and their knowledge of historical economic and market trends. Investors are cautioned that the assumptions we make and the success of our investment strategies are subject to a number of mitigating factors. Economic and market conditions may change, which may materially impact the success of our intended strategies as well as the Fund’s actual course of conduct. Investors are urged to read the section called *Risk Factors* for a discussion of other factors that will impact the Fund.

## SUMMARY

*The following information is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Memorandum.*

<b>The Fund</b>	The Deans Knight Income Fund is an open-end investment fund established in June 1993 under the laws of British Columbia as a trust. See the sections called <i>The Fund</i> and <i>Management of the Fund</i> .
<b>Management of the Fund</b>	Deans Knight Capital Management Ltd. is the manager, promoter and portfolio advisor of the Fund. See the section called <i>The Fund</i> and <i>Management of the Fund</i> .
<b>Investment Objective</b>	The investment objective of the Fund is to achieve long term returns by investing primarily in a diversified portfolio of Canadian fixed income securities and other income generating investments. See the section called <i>Investment Objective, Policies and Restrictions</i> .
<b>Units</b>	Your investment in the Fund will be represented by Series A, Series F, Series K, Series L or Series O units, depending on which series of units you purchase. Each unit of a series represents an equal undivided beneficial interest in the Fund. A holder of any series of units is entitled to one vote for each unit held on matters for which separate approval of the series is sought at any meeting of the unitholders and one vote for each unit held on matters for which approval is sought from all unitholders, voting together as a group, at any meeting of the unitholders. Units are not transferable, other than by operation of law. However, unitholders have the right to redeem their units at certain times if they follow the procedures we have established. See the section called <i>Description of Units</i> .
<b>Investing in the Fund</b>	You may invest in the Fund by purchasing units. Series A, Series F, Series K, Series L and Series O units of the Fund are offered for sale in reliance on exemptions from the prospectus requirements of applicable securities laws. You will only be permitted to purchase units if your purchase qualifies for one of these exemptions. Units may be purchased on the last business day of any month and such other dates as we may determine from time to time. The price of each unit you purchase will be equal to the Series A, Series F, Series K, Series L or Series O net asset value per unit, as the case may be, at 4:00 p.m. Eastern time / 1:00 p.m. Pacific time on the purchase date. The minimum investment amounts and subscription procedure are described in the section called <i>Investing in Units</i> .
<b>Management Fee</b>	For our services as manager, we receive a fee from the Fund in respect of Series A, Series F, Series K and Series L units of the Fund, as set forth below:  Series A – 1.50% per annum of Series A net asset value Series F – 0.75% per annum of Series F net asset value Series K – 1.50% per annum of Series K net asset value Series L – 1.00% per annum of Series L net asset value

Management fees are calculated and payable monthly, and are subject to applicable taxes, including GST or HST.

No management fees are charged to the Fund in respect of Series O units. Instead, an investor who holds Series O units will be charged a negotiated management fee, plus applicable taxes including GST or HST, which is paid directly to us by the Series O investor and not by the Fund. See the section called *Management of the Fund – Fees*.

**Expenses**

The Fund pays its own administrative and operating expenses. See the section called *Summary of the Trust Indenture – Fees and Expenses*.

**Risk Factors**

There are a number of risks associated with an investment in units of the Fund. See the section called *Risk Factors*.

**Income Tax Considerations**

Generally, a unitholder must include in computing income for a year the portion of the net income and the taxable portion of the net realized capital gains of the Fund that is paid or payable to the unitholder in the year.

When a unitholder disposes of units, the unitholder will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, less any associated costs of disposition, are greater (or less) than the adjusted cost base of the units. Redesignating units of one series of the Fund as units of another series of the Fund will not result in a disposition.

The Fund currently qualifies as a “mutual fund trust” under the *Income Tax Act* (Canada) (the “**Tax Act**”). If the Fund continues to so qualify, units of the Fund will be qualified investments under the Tax Act for registered retirement savings plans (“**RRSPs**”), including locked-in retirement accounts (“**LIRAs**”), registered retirement income funds (“**RRIFs**”), including life income funds (“**LIFs**”), deferred profit sharing plans (“**DPSPs**”), registered education savings plans (“**RESPs**”), registered disability savings plans (“**RDSPs**”) and tax free savings accounts (“**TFSAs**”). Annuitants of RRSPs and RRIFs, holders of TFSAs and RDSPs, and subscribers of RESPs, should consult with their own tax advisors as to whether units would constitute a “prohibited investment” under the Tax Act in their particular circumstances. See the section called *Canadian Federal Income Tax Considerations*.

## USE OF PROCEEDS

There is no maximum and no minimum number of units that will be sold as part of this offering. No selling commissions or fees will be paid by the Fund or us in connection with the sale of units under this Offering Memorandum; however, we will pay approved salespersons of authorized dealers a service fee for on-going advice and service provided to holders of Series A units (see the section below called *Compensation Paid to Sellers and Finders*).

The costs associated with the sale of units under this Offering Memorandum will be paid by us, other than: (i) the filing and other fees payable to securities regulators with respect to the issuance of units, which will, in all circumstances, be paid by the Fund; and (ii) the costs that are considered operating expenses of the Fund, which will be paid by the Fund as described below in the section called *Summary of the Trust Indenture – Fees and Expenses*. Filing fees payable to securities regulators vary depending on the jurisdiction in which the investor resides.

The net proceeds from the sale of units will be used to invest in securities in the manner described below in the section called *Investment Objective, Policies and Restrictions*, and to pay the fees described below in the section called *Management of the Fund – Fees* and the operating expenses of the Fund described below in the section called *Summary of the Trust Indenture – Fees and Expenses*.

## THE FUND

The Fund is an open-ended investment fund established as a trust under the laws of British Columbia on March 30, 1993. The Fund is considered to be a “mutual fund” within the meaning of applicable securities laws and is a “mutual fund trust” within the meaning of the *Income Tax Act* (Canada).

Deans Knight Capital Management Ltd. (defined above as “**Deans Knight**”, the “**Manager**”, “**we**”, “**us**” and “**our**”) is the manager, promoter and portfolio advisor of the Fund. We are responsible for the day-to-day management of the Fund, including management of the Fund’s portfolio on a discretionary basis and distribution of units of the Fund. See the section called *Management of the Fund*. RBC Investor Services Trust (the “**Trustee**”) is the trustee and custodian of the Fund, and provides certain recordkeeping services to the Fund. See the sections called *Summary of the Trust Indenture – Trustee and Custodian and Recordkeeper*.

The head office of the Fund (which is also our head office) is located at Suite 1500, 999 West Hastings Street, Vancouver, British Columbia V6C 2W2. You can contact us by telephone at 604-669-0212, by facsimile at 604-669-0238 or by e-mail at [info@deansknight.com](mailto:info@deansknight.com).

The beneficial interest in the Fund is divided into different series of units. Each series of units is intended for different types of investors. A unit of a series represents an equal undivided interest in the net assets of the Fund attributable to that series. However, the assets of all series of the Fund are combined in a single pool to create one portfolio for investment purposes. The Fund currently issues only Series A units, Series F units, Series K units, Series L units and Series O units. The Fund may issue other series of units in the future. See the section called *Description of Units*.

## INVESTMENT OBJECTIVE, POLICIES AND RESTRICTIONS

The investment objective of the Fund is to achieve long term returns by investing primarily in a diversified portfolio of Canadian fixed income securities and other income generating investments. In particular, the Fund may invest in the following:

- (a) bonds, bond equivalents and money market securities;

- (b) debt-like securities where: (i) the amount of interest and/or principal to be paid to the holder is linked in whole or in part by formula to the appreciation or depreciation in the market place, value or level or one of more underlying interests on a predetermined date or dates; or (ii) where the security provides the holder with a right to convert or exchange the security for the underlying interest or to purchase the underlying asset;
- (c) securities of income trusts, real estate investment trusts (REITs) and royalty trusts, equity securities and other securities, which by their terms bear a dividend or distribution which is either fixed or determinable by reference to formula;
- (d) convertible securities;
- (e) asset backed securities;
- (f) index participation units;
- (g) government or corporate strip bonds;
- (h) instruments, sometimes referred to as “derivatives”, with the intention to: (i) offset or reduce a risk associated with an investment or group of investments, including currency, market or interest rate risk; (ii) reduce transactions costs, achieve greater liquidity, create effective exposure to international financial markets, or increase speed and flexibility in making portfolio changes; (iii) enhance the returns from the portfolio; or (iv) benefit from declines in financial markets, provided in all cases that the Fund may not use such instruments for the purpose of speculative trading; and
- (i) other income generating investments (including bank loans, bridge loans, credit default swaps, mezzanine financing and structured products).

In addition to the types of investments described above, the Fund may also hold equity securities that do not by their terms bear a dividend or distribution (“**non-distribution paying equity securities**”) that: (i) are received on the conversion of other securities (such as warrants or debt instruments); or (ii) are received on the exercise of rights received with respect to other securities, in either case provided that at the time such non-distribution paying equity securities are acquired (i.e., on the conversion of other securities or on the exercise of rights received with respect to other securities) not more than 10% of the value of the Fund’s assets are invested in non-distribution paying equity securities.

Under the terms of the Trust Indenture (as defined below), the Fund is required to be invested in such a manner so as to be eligible for RRSPs, RRIFs, DPSPs and Registered Pension Plans. For further information regarding the eligibility of units of the Fund for these and other registered plans, see the section called *Canadian Federal Income Tax Consideration – Eligibility for Registered Plans*.

Amendments to the investment objective, policies and restrictions of the Fund may only be made in accordance with the terms of the Trust Indenture governing the Fund. See the section called *Summary of the Trust Indenture – Amendment of the Trust Indenture*.

## PAST PERFORMANCE

The table below contains information regarding the past performance of the Fund since its units were first issued to investors on June 30, 1993. Only three years of performance information is included below for Series A and Series F units because Series A and Series F units were first issued to investors on January 30, 2015 and December 4, 2014, respectively. In addition, only one year of performance information is

included below for Series K and Series L units because Series K and Series L units were first issued to investors on April 30, 2016. **It is important that you understand that how the Fund has performed in the past does not necessarily indicate how it will perform in the future.**

### Historical Compound Annual Returns as at March 31, 2019

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	<u>20 Years</u>	<u>Since Inception</u>
Deans Knight Income Fund – Series A <sup>(1)</sup>	4.1%	6.5%	-	-	-	-
Deans Knight Income Fund – Series F <sup>(2)</sup>	4.9%	7.3%	-	-	-	-
Deans Knight Income Fund – Series K <sup>(3)</sup>	4.1%	-	-	-	-	-
Deans Knight Income Fund – Series L <sup>(4)</sup>	4.7%	-	-	-	-	-
Deans Knight Income Fund – Series O <sup>(5)</sup>	5.8%	8.1%	5.8%	11.2%	9.4%	10.1%
FTSE TMX Canada Universe Bond Index <sup>(6)</sup>	5.3%	2.7%	3.8%	4.4%	5.2%	6.2%
ICE BAML USD High Yield	5.9%	8.7%	4.7%	11.2%	6.7%	7.3%

#### Notes:

- (1) The rate of return is net of expenses borne by the Fund, including the management fee that is paid to us by the Fund in respect of Series A units. See the sections called *Summary of the Trust Indenture – Fees and Expenses* and *Management of the Fund – Fees*.
- (2) The rate of return is net of expenses borne by the Fund, including the management fee that is paid to us by the Fund in respect of Series F units. See the sections called *Summary of the Trust Indenture – Fees and Expenses* and *Management of the Fund – Fees*.
- (3) The rate of return is net of expenses borne by the Fund, including the management fee that is paid to us by the Fund in respect of Series K units. See the sections called *Summary of the Trust Indenture – Fees and Expenses* and *Management of the Fund – Fees*.
- (4) The rate of return is net of expenses borne by the Fund, including the management fee that is paid to us by the Fund in respect of Series L units. See the sections called *Summary of the Trust Indenture – Fees and Expenses* and *Management of the Fund – Fees*.
- (5) The rates of return are net of expenses borne by the Fund. No management fees are paid by the Fund with respect to Series O units. Instead, each Series O investor pays a negotiated management fee, plus applicable taxes including GST or HST, directly to us. See the sections called *Summary of the Trust Indenture – Fees and Expenses* and *Management of the Fund – Fees*.
- (6) Formerly known as the DEX Universe Bond Index and prior to that the SCM Universe Bond Index.

### SUMMARY OF THE TRUST INDENTURE

The Fund is governed by an amended and restated trust indenture made as of May 31, 2016 (as the same may be further amended and/or supplemented from time to time, the “**Trust Indenture**”), between Deans Knight Capital Management Ltd. (defined above as “**Deans Knight**”, the “**Manager**”, “**we**”, “**us**” and “**our**”), as manager, and RBC Investor Services Trust (defined above as the “**Trustee**”), as trustee.

The following is a summary only of certain provisions of the Trust Indenture not otherwise summarized in this Offering Memorandum and is not necessarily complete. The Trust Indenture also governs the Deans Knight Equity Growth Fund and the Deans Knight Equity Growth Fund II, which are other investment funds managed by us. The summary below relates only to the Fund. You should review the Trust Indenture for complete details of its terms. You may request a copy of the Trust Indenture by contacting us at the address, numbers or e-mail address set out on the front cover.

#### Division of the Fund into Units

Interests in the Fund are divided into units of one or more series. Each unit of a series has equal value to all other units of that series. There are currently five authorized series of units - Series A, Series F, Series K,



Series L and Series O. A summary of the rights and restrictions attached to units is set out below in the section called *Description of Units*.

### **Determination of Series Net Asset Value**

For unit sales and redemption pricing purposes, the net asset value of the Fund is calculated in accordance with the Trust Indenture, including the valuation principles set forth therein. All references in this Offering Memorandum to net asset value and series net asset value are references to net asset value and series net asset value determined in accordance with the Trust Indenture.

The net asset value of the Fund is determined by us, or our designate, at the close of business on the last business day of each month and such other dates as we may determine from time to time. The net asset value of the Fund is the fair market value of the Fund's assets less its liabilities. The Series A, Series F, Series K, Series L and Series O net asset value, as the case may be, is the net asset value of the Fund that is attributed to such series. In determining the portion of net asset value attributable to any series, the following factors will be taken into account:

- the series net asset value last calculated for that series; plus
- any increase in the assets of the Fund attributable to that series as a result of the issue of units of that series or redesignation of units of that series since the last calculation; minus
- the decrease in the assets of the Fund attributable to that series as a result of the redemption of units of that series or the redesignation of units out of that series since the last calculation; plus or minus
- the proportionate share of the net change in non-portfolio assets (as defined in the Trust Indenture) on the valuation day attributable to that series; plus or minus
- the proportionate share of the distribution of net income and net capital gains of the Fund allocated to unitholders of that series on the valuation day; plus or minus
- the proportionate share of market appreciation or depreciation of the property of the Fund since the last calculation attributable to that series; minus
- the proportionate share of common expenses of the Fund allocated to that series since the last calculation; minus
- any series expenses attributable to that series since the last calculation.

The series net asset value per unit is (A) the series net asset value of the series divided by (B) the number of units of that series outstanding at the applicable time.

The fair market value of the Fund's assets is determined using the principles set out in the Trust Indenture, including the following:

- The value of any cash on hand or on deposit, bills, notes, accounts receivable, prepaid expenses, cash dividends declared but unpaid (where the investment on which the dividend has been declared is trading ex-dividend), and interest accrued but not yet received will be deemed to be the face amount thereof, unless we determine that any deposit, bill, demand note or account receivable is not worth the full face value, in which event the value thereof will be deemed to be such value as we deem to be the fair value thereof.

- The value of any security which is listed on a recognized public stock exchange will be the closing sale price on the last day in which such exchange was open for trading prior to the valuation day if the security traded on that day. If no sale has taken place on that date, the value of the security will be the last published sale price, the last recorded bid price, or the mean between the last recorded bid and ask prices, whichever in our opinion more accurately reflects the fair value of such security.
- We will select the recognized public stock exchange whose quotations are used in the determination of the value of any security which is listed on more than one recognized public stock exchange.
- The value of any security which is not listed on any recognized public stock exchange will be valued by us in our absolute discretion at the last recorded bid price, or the mean between the closing bid and ask prices on the date or at such price as we may from time to time determine most accurately reflects the fair value of such security.
- Options purchased by the Fund will be valued at the closing sale price of such options on a clearing corporation or other market on which they are traded, as selected by us, or, if no sale has taken place on such date, at the last recorded sale price or the mean between the last recorded bid and ask prices, whichever more accurately reflects, in our opinion, the fair value of such options.
- Fixed income securities will be priced within the limits of the latest available or current bid and ask prices deemed best to reflect the fair value, as quoted by independent pricing services or dealers who make markets in such securities, or at such price as we may from time to time determine more accurately reflects the fair value of such security.
- The value of forward contracts will be the current cost of covering or offsetting the contract, provided that any difference resulting from revaluation will be treated as an unrealized gain or loss on investments.
- The value of any short term security will be stated at the cost which, when combined with accrued interest, approximates market value or, if in our opinion a more representative value can be obtained, we may use other methods such as a bid-side valuation based on debt security yields.
- The value of all other assets and of any asset for which price quotations are not available or for which the face value or other specified valuation is not, in our opinion, appropriate, will be determined by us on such basis and in such manner as we determine most accurately reflects the fair value thereof.
- The value of all assets and liabilities of the Fund expressed or denominated in a currency other than Canadian dollars will be converted into Canadian dollars in accordance with the provisions of the Trust Indenture.
- In determining the net asset value of the Fund, we may, in our sole discretion, accrue expenses or liabilities which are chargeable to the Fund in accordance with generally accepted accounting principles.
- Restricted securities will be valued at the lesser of the value based on reported quotations in common use and a value relative to the market value of unrestricted securities of the same class, provided that such value will be reduced by the same rate of discount which applied at the time of purchase and that the rate of such discount may be reduced proportionately where such restriction is to be lifted on a known date.

- The value of a purchased clearing corporation option will be its market value on the date in question; in valuing a written covered clearing corporation option the premium received will be reflected as a deferred credit which, so long as an open position is maintained, will be valued at an amount equal to the current market value of that option which would have the effect of closing the writer's position; any difference resulting from revaluation will be treated as an unrealized gain or loss on investment; such deferred credit will be deducted in arriving at the net asset value of the Fund; securities which are the subject of a clearing corporation option will continue to be valued at current market value in the manner described above.
- The value of any security purchased or sold will be reflected in the computation of net asset value of the Fund next made after the date on which the purchase or sale of such security becomes binding upon the Fund.
- In the event that we are of the opinion that the fair value of any security is not accurately reflected as a result of the application of any of the foregoing, the fair value of such security will be determined by such other means as we deem appropriate in the circumstances.

## Trustee

The trustee of the Fund is RBC Investor Services Trust (defined above as the “**Trustee**”). Under the Trust Indenture, the Trustee has full control and authority over the assets of the Fund, subject to certain restrictions and limitations set forth in the Trust Indenture, including the Manager's full power, authority and responsibility to manage the business and affairs of the Fund.

The Trust Indenture provides that the Trustee is required to exercise its powers and discharge the duties of its office honestly and in good faith and in connection therewith must exercise the degree of care, diligence and skill that a reasonably prudent Canadian trust company would exercise in comparable circumstances.

For providing its services in accordance with the terms of the Trust Indenture, the Trustee is entitled to receive the fees and expenses agreed upon from time to time by us and the Trustee. These fees and expenses are charged to and payable by the Fund. In the year ended December 31, 2018, the Trustee received fees in the aggregate amount of \$5,000 as compensation for its services as trustee of the Fund.

Under the Trust Indenture, the Trustee has the power to incur and make payment out of Fund property any charges or expenses which, in the opinion of the Trustee, are necessary or incidental to or proper for carrying out any of the purposes of the Trust Indenture, and to pay compensation from the Fund property to persons with whom the Fund has contracted or transacted business or for special services provided to the Fund including, without limitation, services as a broker, transfer agent, registrar, recordkeeper, custodian or sub-custodian whether performed by the Trustee or any person associated or affiliated with it, or for legal, accounting or other professional services, as the Trustee acting in good faith deems reasonable.

The Trust Indenture provides that the Trustee will hold office until its resignation or removal in accordance with the terms of the Trust Indenture or its bankruptcy or other incapacity to exercise the duties of the office of a trustee.

The Trustee may resign as trustee by an instrument in writing signed by it and delivered or mailed to us, and such resignation will be effective 60 days following the day such notice is delivered or mailed. Upon receiving the Trustee's resignation, we are required to notify the unitholders of the Fund of the Trustee's resignation. The Trustee may be removed as a trustee at any time with or without cause by us on 60 days' notice to the Trustee. In addition, we may remove the Trustee as trustee of the Fund forthwith upon written notice being given to the Trustee in the event of the Trustee's gross negligence or fraud. Upon the

resignation of the Trustee or it otherwise ceasing to be trustee of the Fund, we will appoint and designate a successor trustee and the Trustee will be required to convey to the successor trustee, the Fund property. If a successor trustee has not been appointed by us within 30 days following the giving of notice by the Trustee of its resignation (or within 30 days following the Trustee's bankruptcy or other incapacity to exercise the duties of the office of a trustee), then, subject to applicable law, the unitholders of the Fund may appoint and designate a successor trustee within a further period of 30 days, failing which the Fund will be deemed to have been terminated. Upon the incapacity of the Trustee, its legal representatives are required to execute and deliver on its behalf such documents as the foregoing conveyance may require.

## **Fees and Expenses**

The Fund pays us, for our services as manager of the Fund, the management fees described in the section called *Management of the Fund – Fees*.

The fees of and expenses incurred by the Trustee or us and any other persons appointed, employed or contracted with by the Trustee or by us in respect of services rendered to the Fund, are paid by the Fund.

The Fund pays its own administrative and operating expenses, including but not limited to brokerage fees, fees and disbursements directly relating to the implementation of transactions for the portfolio of the Fund, income, excise or other taxes payable by the Fund or to which the Fund may be subject, interest expense incurred by the Fund, custodial, registrar or recordkeeping and trustee fees, legal, audit and accounting fees and expenses, costs of any meetings of unitholders, costs of all financial and other reports and printing, and mailing expenses relating to any of the foregoing.

Common expenses will be allocated to each series of units of the Fund based on the respective series net asset value. Expenses specific to a series of units will be allocated to and deducted from the series net asset value of that series of units only.

## **Meetings**

A meeting of the unitholders of the Fund may be called at any time by us or the Trustee. You will receive at least 21 (and not more than 50) days' notice of any meeting of unitholders at which you are entitled to vote. The quorum for any meeting is two or more individuals present in person holding personally or representing as proxies not less than 10% of the outstanding units entitled to vote. The number of votes you will have on any question submitted to any meeting will be equal to the number of units then held by you. We may seek your approval for matters by way of mail rather than by holding a meeting of unitholders.

## **Amendment of the Trust Indenture**

The Trust Indenture may be amended upon the approval of a majority of the votes cast at a meeting of the affected unitholders duly called in accordance with the Trust Indenture.

In addition, the Trust Indenture may be amended by us and the Trustee provided written notice of the amendment is given by us to each affected unitholder not less than 60 days prior to the effective date of such amendment, if we and the Trustee determine that the amendment is in the best interests of the unitholders or the Fund and the amendment does not materially adversely affect the pecuniary value of the interest of any unitholder.

The Trust Indenture may be amended without the approval of or notice to the unitholders of the Fund where the amendment is: (i) to remove any conflicts or other inconsistencies which may exist between any of the terms of the Trust Indenture; or (ii) to make any change or correction in the Trust Indenture if we have been

advised by legal counsel that the same is a typographical correction or change or is required for the purpose of curing any ambiguity or defective or inconsistent provision or clerical omission or mistake or manifest error contained therein.

### **Termination of the Fund**

We may terminate the Fund with the express prior written consent of the Trustee, upon giving written notice to the unitholders of the Fund at least 90 days prior to the effective date of termination.

Upon providing such notice, we and the Trustee will proceed to wind up the affairs of the Fund and, in conjunction therewith, we will dispose of the Fund property as expeditiously as prudent practice permits. After paying or adequately providing for the payment of all liabilities and upon receipt of all necessary releases, indemnities and refunding agreements, we will direct the Trustee to distribute the remaining Fund property, in cash or in kind, or partly in each, among the unitholders of the Fund according to their proportionate share of the Fund property attributable to each applicable series of units.

### **MANAGEMENT OF THE FUND**

We are responsible for managing the business and affairs of the Fund, including providing the Fund with all necessary administrative and portfolio advisory services. We may also be considered to be a “promoter” of the Fund within the meaning of applicable securities laws because we took the initiative in organizing the Fund.

### **Powers of the Manager**

As the manager of the Fund, we have full authority and responsibility to manage the business and affairs of the Fund, including without limitation, the exclusive power to manage and direct the investment of the Fund property and to provide, or cause to be provided, all necessary investment advisory, investment management, management and administrative services to the Fund.

### **Fees**

We are entitled to receive fees for our services as manager of the Fund. As at the date of this Offering Memorandum, the fees for our services as manager of the Fund in relation to Series A, Series F, Series K and Series L units are set forth below:

Series A – 1.50% per annum of Series A net asset value

Series F – 0.75% per annum of Series F net asset value

Series K – 1.50% per annum of Series K net asset value

Series L – 1.00% per annum of Series L net asset value

Management fees are calculated and payable monthly, and are subject to applicable taxes, including GST or HST.

No management fees are charged to the Fund in respect of Series O units. Instead, an investor who holds Series O units will be charged a negotiated management fee, plus applicable taxes including GST or HST, which is paid directly to us by the Series O investor and not by the Fund.

## Expenses

In addition to our management fees, the Fund pays its own administrative and operating expenses. See the section called *Summary of the Trust Indenture – Fees and Expenses*.

## Resignation and Removal of the Manager

We may resign as manager of the Fund at any time by giving unitholders and the Trustee 60 days' written notice of our intention to resign.

The Trustee may remove us as manager of the Fund forthwith upon written notice being given to us in the event of our gross negligence or fraud, or if we have otherwise materially breached the terms of the Trust Indenture unless such breach is (i) remedied within 120 days of the notice of the breach being provided to us, or (ii) waived by the Trustee.

If we become insolvent or bankrupt or subject to the provisions of the *Bankruptcy and Insolvency Act* (Canada) or go into liquidation either voluntarily or under an order of a court of competent jurisdiction or make a general assignment for the benefit of our creditors or otherwise acknowledge our insolvency, we will be deemed to have given written notice of our resignation 60 days prior to such act of insolvency or bankruptcy.

If we cease to act as manager of the Fund, the unitholders of the Fund may appoint and designate a successor manager. If the unitholders of the Fund do not appoint or fail to approve a successor manager within 60 days, the Fund will be terminated immediately in accordance with the terms of the Trust Indenture. See the section above called *Summary of the Trust Indenture - Termination of the Fund*.

## Management Experience

The following table discloses the principal occupations of our directors and executive officers over the past five years and their relevant experience.

Name and Office Held	Principal Occupation and Related Experience
<b>Dillon Cameron</b> Co-Chief Investment Officer and Director	Dillon Cameron joined Deans Knight in September 2000 and leads the investment process for all income portfolios. Prior to joining Deans Knight, Dillon worked on the trading floor at Scotia Capital Inc. in Toronto. Dillon graduated from Bishop's University in 1999 with a Bachelor of Business Administration degree majoring in Finance and received his Chartered Financial Analyst designation in 2002.
<b>Wayne Deans</b> Chairman, Chief Executive Officer and Director	Wayne Deans co-founded Deans Knight in 1992 and leads the investment process for all equity portfolios. Wayne was formerly President and Equity Portfolio Manager at MK Wong & Associates of Vancouver. Prior to MK Wong & Associates, Wayne was a Vice-President and Director with Wood Gundy after spending 10 years with the Bank of Canada. Wayne earned a Bachelor of Commerce degree at Sir George Williams University in 1968 and an MBA from McMaster University in 1970. In 1996, he was named Canadian Mutual Fund Manager of the Year at the Analysts Choice Awards.
<b>Kelsey Dunwoodie</b> Chief Compliance Officer	Kelsey Dunwoodie joined Deans Knight in 2010. Her responsibilities include leadership, investment research and compliance matters. Additionally, Kelsey has principal responsibility for overseeing operations for the Administration, Finance & Compliance team. Prior to joining Deans Knight, Kelsey was an Audit & Assurance Manager with PricewaterhouseCoopers LLP. Kelsey obtained her Bachelor of Commerce (Honour Roll) from the University of British Columbia in 2006, and her Chartered Accountant designation (Honour Roll) in 2008.

<b>Name and Office Held</b>	<b>Principal Occupation and Related Experience</b>
<b>Benjamin Scott</b> Director	Benjamin Scott re-joined Affiliated Manager's Group, Inc. ("AMG") in 2017 as a senior manager in the Affiliate Development group. AMG is an institutional partner in Deans Knight. AMG is a global asset management company with investments in leading boutique investment management firms. Previously, Ben spent seven years with AMG Wealth Partners, LP, a subsidiary of AMG that partners with leading wealth management firms. Ben joined AMG in 2004 and became Vice President in 2006. Prior to joining AMG, Ben was an Associate with UBS Investment Bank. Ben holds a B.S. from the University of Massachusetts Amherst where he was elected to Phi Beta Kappa.
<b>Umesh Vallipuram</b> Director	Umesh Vallipuram is Vice President for Affiliated Development at AMG Canada Corp. AMG Canada Corp. is a wholly owned subsidiary of AMG. Prior to joining AMG Canada Corp. in April 1998, Umesh was a Senior Associate with PricewaterhouseCoopers LLP. Umesh graduated from University of Waterloo in 1995 with a Bachelor of Arts degree, and received his Chartered Accountant designation in 1997.

## Unitholdings of Management and Others

The table below outlines certain information regarding the Manager, each director and officer of the Manager, and each person who as at March 31, 2019 directly or indirectly beneficially owned or controlled 10% or more of the outstanding units of a particular series.

<b>Name and Municipality of Principal Residence</b>	<b>Position Held / Date of Obtaining that Position</b>	<b>Compensation paid by Fund in the year ended Dec. 31, 2018</b>	<b>Anticipated Compensation for the year ended Dec. 31, 2019</b>	<b>Number / % of units held as at March 31, 2019</b>	<b>Number / % of units expected to be held after this Offering</b>
Deans Knight Capital Management Ltd. Vancouver, BC	N/A	\$797,152 <sup>(1)</sup>	Unknown <sup>(2)</sup>	Nil / 0%	Unknown <sup>(3)</sup>
Dillon Cameron Vancouver, BC	Co-Chief Investment Officer and Director since 2000	Nil <sup>(4)</sup>	Nil	89,581 Series O units / 0.51% of Series O units	Unknown <sup>(5)</sup>
Wayne Deans Vancouver, BC	Chairman, Chief Executive Officer and Director since 1993	Nil <sup>(6)</sup>	Nil	332,762 Series O units / 1.90% of Series O units	Unknown <sup>(5)</sup>
Kelsey Dunwoodie Coquitlam, BC	Chief Compliance Officer since 2010	Nil <sup>(7)</sup>	Nil	5,112 Series O units / 0.03% of Series O units	Unknown <sup>(5)</sup>
Benjamin Scott West Palm Beach, Florida	Director since 2006	Nil	Nil	Nil / 0%	Unknown <sup>(5)</sup>
Umesh Vallipuram Toronto, Ontario	Director since 1998	Nil	Nil	3,384 Series F units / 0.78% of Series F units	Unknown <sup>(5)</sup>
Investor A <sup>(8)</sup>	Principal holder	Nil	Nil	184,515 Series A units / 49.29% of Series A units	Unknown <sup>(9)</sup>
Investor B <sup>(8)</sup>	Principal holder	Nil	Nil	61,369 Series A units / 16.39% of Series A units	Unknown <sup>(9)</sup>
Investor C <sup>(8)</sup>	Principal holder	Nil	Nil	57,507 Series A units / 15.36% of Series A units	Unknown <sup>(9)</sup>
Investor D <sup>(8)</sup>	Principal holder	Nil	Nil	53,106 Series F units / 12.19% of Series F units	Unknown <sup>(9)</sup>

Name and Municipality of Principal Residence	Position Held / Date of Obtaining that Position	Compensation paid by Fund in the year ended Dec. 31, 2018	Anticipated Compensation for the year ended Dec. 31, 2019	Number / % of units held as at March 31, 2019	Number / % of units expected to be held after this Offering
Investor E <sup>(8)</sup>	Principal holder	Nil	Nil	44,580 Series F units / 10.23% of Series F units	Unknown <sup>(9)</sup>
Investor F <sup>(8)</sup>	Principal holder	Nil	Nil	291,466 Series K units / 20.96% of Series K units	Unknown <sup>(9)</sup>
Investor G <sup>(8)</sup>	Principal holder	Nil	Nil	192,972 Series K units / 13.87% of Series K units	Unknown <sup>(9)</sup>
Investor H <sup>(8)</sup>	Principal holder	Nil	Nil	149,739 Series K units / 10.77% of Series K units	Unknown <sup>(9)</sup>
Investor I <sup>(8)</sup>	Principal holder	Nil	Nil	1,725,525 Series L units / 38.29% of Series L units	Unknown <sup>(9)</sup>
Investor J <sup>(8)</sup>	Principal holder	Nil	Nil	1,699,617 Series L units / 37.71% of Series L units	Unknown <sup>(9)</sup>
Investor K <sup>(8)</sup>	Principal holder	Nil	Nil	2,595,400 Series O units / 14.85% of Series O units	Unknown <sup>(9)</sup>

**Notes:**

- (1) This compensation represents the management fee paid to us by the Fund referred to in the section above called *Management of the Fund – Fees*.
- (2) The compensation paid to us for the year ended December 31, 2019 will vary based on the net assets of the Fund during that period and will be comprised of the fees described in the sections above called *Management of the Fund – Fees*.
- (3) Although we may acquire units under this Offering Memorandum, we have no current intention to do so.
- (4) Dillon Cameron does not receive any compensation from the Fund. However, he beneficially owns or controls 11.7% of our shares. We receive a management fee from the Fund. See the section above called *Management of the Fund – Fees*.
- (5) The directors and officers of the Manager may acquire additional units under this Offering Memorandum; however, the number of units, if any, which may be acquired by the directors and officers of the Manager is not known.
- (6) Wayne Deans does not receive any compensation from the Fund. However, he beneficially owns or controls 23.0% of our shares. We receive a management fee from the Fund. See the section above called *Management of the Fund – Fees*.
- (7) Kelsey Dunwoodie does not receive any compensation from the Fund. However, she beneficially owns or controls 5.0% of our shares. We receive a management fee from the Fund. See the section above called *Management of the Fund – Fees*.
- (8) To protect the privacy of individual investors, we have omitted the name of the beneficial owner(s).
- (9) The principal holders of units may acquire additional units under this Offering Memorandum; however, the number of units, if any, which may be acquired by such principal holders is not known.

**Penalties, Sanctions and Bankruptcy**

There are no penalties or sanctions that have been in effect during the last 10 years, or any cease trade orders that have been in effect for a period of more than 30 consecutive days during the past 10 years against: (i) a director, executive officer or control person of the Fund or the Manager; or (ii) an issuer of which any of the foregoing persons was a director, executive officer or control person at the relevant time.

There are no declarations of bankruptcy, voluntary assignments in bankruptcy, proposals under any bankruptcy or insolvency legislation, proceedings, arrangements or compromises with creditors or appointments of a receiver, receiver manager or trustee to hold assets, that have been in effect during the last 10 years with regard to any: (i) director, executive officer or control person of the Fund or the Manager; or (ii) issuer of which any of the foregoing persons was a director, executive officer or control person at the relevant time.



## CUSTODIAN AND RECORDKEEPER

### Custodian

RBC Investor Services Trust (defined above as the “**Trustee**”) acts as custodian of the Fund pursuant to a custodian agreement between the Manager and the Trustee made as of April 10, 2013. As custodian, the Trustee is responsible for the safekeeping of the assets of the Fund. In consideration of the services provided by the Trustee as custodian of the Fund, the Fund pays the Trustee a fee. We negotiate the amount of this fee with the Trustee. In addition, the Trustee is reimbursed for its reasonable disbursements.

### Recordkeeper

RBC Investor Services Trust (defined above as the “**Trustee**”) acts as recordkeeper of the Fund. As recordkeeper, it keeps track of who owns units of the Fund, maintains a record of all purchases and redemptions of units, and prepares and maintains certain other records required by the Fund. The Trustee receives a fee from the Fund for its services as recordkeeper and we negotiate the amount of this fee on behalf of the Fund.

## CAPITAL STRUCTURE

### Outstanding Securities of the Fund

The table below describes the outstanding securities of the Fund as at March 31, 2019:

Description of Security <sup>(1)</sup>	Number Authorized to be Issued <sup>(2)</sup>	Number of Units Outstanding	Number of Units Outstanding after Offering <sup>(2)</sup>
Series A units	Unlimited	374,375	Unknown
Series F units	Unlimited	435,574	Unknown
Series K units	Unlimited	1,390,794	Unknown
Series L units	Unlimited	4,506,640	Unknown
Series O units	Unlimited	17,475,670	Unknown

#### Notes:

(1) The Fund may offer additional series of units in the future.

(2) There is no minimum or maximum number of units to be issued as part of this offering. The Fund will continue to issue additional Series A, Series F, Series K, Series L and Series O units on an on-going basis.

## Prior Sales

The table below discloses information regarding the Series A, Series F, Series K, Series L and Series O units that were issued during the 12 months ended March 31, 2019.

Date of Issuance	Series A		Series F		Series K		Series L		Series O		Total Funds Received
	Number of Units Issued	Price per Unit	Number of Units Issued	Price per Unit	Number of Units Issued	Price per Unit	Number of Units Issued	Price per Unit	Number of Units Issued	Price per Unit	
April 28, 2018	6,198.704	\$9.65	7,882.132	\$9.40	885.142	\$10.22	6,911.379	\$10.22	241,346.571	\$6.69	\$1,828,184
May 31, 2018	6,681.621	\$9.64	6,211.161	\$9.39	1,245.163	\$10.20	9,493.291	\$10.20	91,226.130	\$6.68	\$841,547
June 30, 2018	1,269.710	\$9.61	86,295.351	\$9.36	1,059.985	\$10.17	8,169.196	\$10.17	60,863.824	\$6.66	\$1,318,893
July 29, 2018	1,385.200	\$9.58	20,132.539	\$9.34	16,064.365	\$10.15	8,876.816	\$10.15	63,967.990	\$6.64	\$879,301
August 31, 2018	1,239.104	\$9.58	18,829.939	\$9.33	1,102.412	\$10.14	8,020.026	\$10.14	75,266.353	\$6.64	\$779,771
September 30, 2018	1,090.991	\$9.56	5,949.168	\$9.31	185,896.082	\$10.12	7,133.380	\$10.12	455,040.100	\$6.63	\$5,035,763
October 31, 2018	1,227.667	\$9.38	2,164.355	\$9.13	1,929.270	\$9.93	7,977.877	\$9.93	718,487.087	\$6.50	\$4,798,966
November 30, 2018	1,169.984	\$9.24	759.338	\$9.00	58,598.108	\$9.78	290,679.773	\$9.78	53,628.162	\$6.40	\$3,778,334
December 31, 2018	1,724.789	\$9.08	7531.924	\$8.85	14905.122	\$9.62	447,261.536	\$9.62	706,539.592	\$6.30	\$8,981,049
January 31, 2019	1,208.460	\$9.23	3,576.992	\$9.00	2,326.413	\$9.77	106,435.723	\$9.78	50,193.397	\$6.41	\$1,428,030
February 28, 2019	1,144.384	\$9.29	23,175.162	\$9.05	2,187.044	\$9.83	9,517.608	\$9.84	116,528.171	\$6.45	\$1,086,689
March 31, 2019	1,152.051	\$9.46	52,269.183	\$9.22	167,070.574	\$10.02	9,642.989	\$10.02	47,797.856	\$6.57	\$2,576,988

The table below discloses information regarding the Series A, Series F, Series K, Series L and Series O units that were redeemed during the 12 months ended March 31, 2019.

Date of Redemption	Series A		Series F		Series K		Series L		Series O		Total Funds Paid
	Number of Units Redeemed	Price per Unit	Number of Units Redeemed	Price per Unit	Number of Units Redeemed	Price per Unit	Number of Units Redeemed	Price per Unit	Number of Units Redeemed	Price per Unit	
April 28, 2018	NIL	-	18,947.942	\$9.40	NIL	-	NIL	-	263,792.876	\$6.69	\$1,942,895
May 31, 2018	NIL	-	12,225.655	\$9.39	131.381	\$10.20	294,031.167	\$10.20	160,146.727	\$6.68	\$4,185,734
June 30, 2018	NIL	-	17,392.671	\$9.36	NIL	-	NIL	-	325,367.898	\$6.66	\$2,329,134
July 29, 2018	NIL	-	NIL	-	NIL	-	NIL	-	323,574.892	\$6.64	\$2,149,495
August 31, 2018	NIL	-	18,277.986	\$9.33	130.300	\$10.14	NIL	-	8,548.496	\$6.64	\$228,627
September 30, 2018	NIL	-	NIL	-	NIL	-	NIL	-	827,362.274	\$6.63	\$5,483,013
October 31, 2018	NIL	-	265,183.471	\$9.13	NIL	-	NIL	-	69,610.684	\$6.50	\$2,874,691
November 30, 2018	NIL	-	6,265.848	\$9.00	6,953.298	\$9.78	345,410.253	\$9.78	612,035.194	\$6.40	\$7,423,409
December 31, 2018	3,776.760	\$9.08	108,986.527	\$8.85	187,563.171	\$9.62	NIL	-	304,995.127	\$6.30	\$4,725,233
January 31, 2019	NIL	-	NIL	-	96,461.351	\$9.77	329,681.500	\$9.78	785,378.259	\$6.41	\$9,196,091
February 28, 2019	NIL	-	3,628.714	\$9.05	2,853.262	\$9.83	NIL	-	14,774.057	\$6.45	\$156,144
March 31, 2019	NIL	-	156.905	\$9.22	NIL	-	NIL	-	437077.231	\$6.57	\$2,871,016

## DESCRIPTION OF UNITS

The beneficial interest in the Fund is divided into different series of units. Each series of units is intended for different types of investors. A unit of a series represents an equal undivided interest in the net assets of the Fund attributable to that series. However, the assets of all series of the Fund are combined in a single pool to create one portfolio for investment purposes.

Except for the fees and expenses payable in respect of each series of units, and the applicable deadline for submitting a redemption request, the rights and attributes of each series will be identical. A holder of any series of units is entitled to one vote for each unit held on matters for which separate approval of the series is sought at any meeting of the unitholders and one vote for each unit held on matters for which approval is sought from all unitholders, voting together as a group, at any meeting of the unitholders.

Gains and losses of the Fund will be allocated to each series of units in proportion to the net asset value of the series relative to the other series. See the section called *Summary of the Trust Indenture – Determination of Series Net Asset Value*.

Units are not transferable, other than by operation of law. However, unitholders have the right to redeem their units at certain times if they follow the procedures we have established. If the Fund is terminated, a holder of units of any series on the termination date will be entitled to a proportionate share of the net assets of the Fund attributable to that series of units.

The Fund currently issues only Series A units, Series F units, Series K units, Series L units and Series O units. The Fund may issue other series of units in the future.

### ***Series A units***

Series A units are available to all investors through authorized dealers. The management fees paid to us with respect to Series A units are described in the section called *Management of the Fund – Fees*. You will not be charged a commission or fee by us or the Fund when you acquire your Series A units. However, your dealer may charge you a commission or fee in respect of your total purchase. See *Compensation Paid to Sellers and Finders* below for information on the service fee we will pay to your authorized dealer if you hold Series A units.

### ***Series F units***

Series F units are available to investors who have fee-based accounts with their dealer and whose dealer has signed an agreement with us. Investors in Series F units pay an annual fee to their dealer for investment advice and other services. We do not pay a service fee to a dealer who sells Series F units, which means that we can charge a lower management fee to holders of Series F units. Series F units are also available to other groups of investors for whom we do not incur distribution costs. The management fees paid to us with respect to Series F units are described in the section called *Management of the Fund – Fees*.

### ***Series K units***

Series K units are available to investors who have entered into an agreement with us and meet certain other conditions. The management fees paid to us with respect to Series K units are described in the section called *Management of the Fund – Fees*. You will not be charged a commission or fee by us or the Fund when you acquire your Series K units.

### ***Series L Units***

Series L units are available to investors who have entered into an agreement with us and meet certain other conditions. The management fees paid to us with respect to Series L units are described in the section called *Management of the Fund – Fees*. You will not be charged a commission or fee by us or the Fund when you acquire your Series L units.

### ***Series O units***

Series O units are available to investors who have entered into an agreement with us and meet certain other conditions. No management fees are charged to the Fund with respect to Series O units; rather, the investors who hold Series O units will pay management fees directly to us, in an amount determined by negotiation and set out in the agreement between us and the investor.

If the market value of your investment in Series O units falls below the specified minimum investment requirement because you redeem units, we may redesignate your investment into Series A units of the same Fund after giving you 30 days' prior notice. A change of units will not take place if the value of your Series O units drops below the specified minimum investment requirement as a result of a decline in the unit price rather than a redemption of your units.

### **Distributions**

Generally, sufficient net income and net realized capital gains of the Fund will be distributed to unitholders in each year to ensure that the Fund will not be subject to tax under Part I of the Tax Act.

We intend to cause the Fund to make monthly distributions of net income to unitholders of record of the applicable series of units of the Fund at the close of business on the last business day of each month. Each unitholder's proportionate share of a distribution will be determined by us in accordance with the Trust Indenture. The distributions of net income will generally be automatically reinvested in additional units of the same series of the Fund at the applicable series net asset value per unit on the date of the distribution, unless a unitholder elects to receive distributions in cash. A unitholder may change this election by providing notice to us.

We intend to cause the Fund to make annual distributions of net realized capital gains to unitholders of record of the applicable series of units of the Fund at the close of business on the last business day of each fiscal year. Each unitholder's proportionate share of a distribution will be determined by us in accordance with the Trust Indenture. The distributions of net realized capital gains will be paid on the last business day of each fiscal year. Such distributions may, at our discretion, be paid in cash or reinvested in additional units of the same series of the Fund at the applicable series net asset value per unit on the date of the distribution.

At any such time that the Fund has capital losses or capital loss carry forward balances, we intend to use these losses or loss carry forward balances before the distribution of capital gains to unitholders.

### **Redemption of Units**

You may redeem units of the Fund on the last business day of each month and such other dates as we may determine from time to time by completing a request for redemption in a form acceptable to us and delivering such form to us. For Series A, Series F, Series K and Series L units, the redemption request must be received by us not less than 60 days prior to the redemption date (or such shorter period as we may in our discretion permit). For Series O units, the redemption request must be received by us not less than 10

business days prior to the redemption date (or such shorter period as we may in our discretion permit). Redemptions are irrevocable except with our consent (which we may withhold in our discretion) or following a suspension as described below.

While we intend to process all redemption requests as soon as possible, the maximum notice period noted above may be relied upon in order to execute any required trading within the Fund's portfolio in a manner that we determine in our discretion is most equitable to all unitholders of the Fund. If you submit a redemption notice to us, we will notify you or your representative of the anticipated redemption date.

The redemption price of your units will be the net asset value per unit determined as at the close of business on the redemption date. Redemption proceeds, less any applicable deductions, will be paid within 10 business days of the redemption date (and in any event, under the terms of the Trust Indenture must be paid no later than 21 days after such redemption date).

We are entitled to charge unitholders a fee of up to 5% of the net asset value of any Series A units or Series F units that are redeemed within six months of the original date of purchase. Following the six month period, no fee will be charged for the redemption of Series A or Series F units. Unitholders will not be charged a fee for redeeming Series K, Series L or Series O units.

The Fund may, at our discretion, pay all or part of the proceeds from a redemption of units in portfolio securities of the Fund.

If you deliver us a request for redemption, the effect of which, on redemption, would be to reduce the aggregate net asset value of the units you hold to less than CAD\$25,000, we may, upon giving 30 days' notice in writing, require you to redeem all the remaining units on the last business day of the month in which the 30 day notice period expires.

We may suspend the redemption of units (including units of a particular series) in the following circumstances:

- (a) during any period when normal trading is suspended on any stock exchange within or outside Canada on which securities are listed which represent more than 50% of the market value of the Fund's assets, without allowance for liabilities;
- (b) subject to the consent which may be required from any applicable regulatory authorities, for such period during which we determine that conditions exist as a result of which the disposal of the Fund's assets necessary to satisfy redemptions is not reasonably practicable or determining the series net asset value is not reasonably practicable; or
- (c) at any other time, with the consent of the British Columbia Securities Commission.

Any suspension will take effect at the time declared by us, and no redemptions of units will be permitted until the earlier of the date we have declared the suspension to be terminated, and the first business day on which the circumstances which gave rise to the suspension cease to exist. In the event of a suspension, you may withdraw the redemption request or receive payment based on the series net asset value per unit next determined after the termination of the suspension.

### **Consolidation, Subdivision and Redesignation**

We may consolidate or subdivide any series of units of the Fund at any time. We may also redesignate units of any series as units of a different series based on the applicable series net asset value per unit of the

two or more series on the date of the redesignation. However, we will not redesignate any series of units held by you without your consent if the redesignation is a material change to, or adversely affects the pecuniary value of, your interest, or if the redesignation would have an adverse tax consequence to you.

### **Transfer of Units**

Units are not transferable. Transmissions of any units in consequence of the death, or transfers pursuant to the bankruptcy or insolvency, of any unitholder or otherwise by operation law will be effected in accordance with the provisions of the Trust Indenture. See the section below called *Resale Restrictions*.

### **INVESTING IN UNITS**

You may invest in the Fund by purchasing units through a registered dealer or directly from us in certain circumstances. Series A, Series F, Series K, Series L and Series O units of the Fund are offered for sale in reliance on exemptions from the prospectus requirements of applicable securities laws. You will only be permitted to purchase units if your purchase qualifies for one of these exemptions. We rely on the representations you make in your subscription agreement to ensure that your purchase qualifies for these exemptions and to ensure that you are otherwise eligible to purchase units.

Subscriptions for units must be made by completing and executing the subscription agreement and supporting documentation, and sending such agreement and documentation together with payment of the aggregate subscription price to us, in accordance with the instructions contained in the subscription agreement.

You may acquire units of the Fund on the last business day of each month and such other dates as we may determine from time to time if we receive and accept your subscription agreement, supporting documentation and payment no later than 4:00 p.m. Eastern time / 1:00 p.m. Pacific time on such date.

We may, in our discretion, refuse to accept your subscription to purchase units even if you provide us with the documentation and information prior to the deadline noted above. For example, we may refuse your subscription if we do not believe an investment in the Fund is appropriate for you. We may also close the Fund to new investors from time to time. If we have decided not to accept your subscription we will notify you of our decision within five business days of receiving the required documentation and information from you.

The purchase price of the units will be based on the Series A, Series F, Series K, Series L or Series O net asset value, as the case may be, determined as at the close of business on the purchase date. See the section above called *Summary of the Trust Indenture - Determination of Series Net Asset Value*.

We have established minimum investment amounts for initial investments and additional investments. The terms of the prospectus exemptions which we rely upon to issue units to you may require a higher minimum investment depending on the jurisdiction where you live. These minimum amounts may vary depending on whether you qualify as an “accredited investor” within the meaning of applicable securities laws. The definition of accredited investor is explained briefly in the table below and in the subscription agreement for the Fund. As at the date of this Offering Memorandum, the applicable minimum investment amounts are set out in the table below. We may in our discretion waive the minimum investment amounts established by us, accept investments in other minimum amounts permitted under applicable securities laws, or require higher minimum investments than those set out below.

Subscriber	Minimum Investment					Additional Investment
	Initial Investment					
	Series A	Series F	Series K	Series L	Series O	All Series
Accredited investors resident in any Canadian province or territory <sup>(1)</sup>	\$25,000	\$25,000	\$25,000	\$25,000	\$150,000	\$5,000
Other investors resident in British Columbia or Newfoundland and Labrador	\$25,000	\$25,000	\$25,000	\$25,000	\$150,000	\$5,000
Other non-individual investors resident in a Canadian province or territory other than British Columbia or Newfoundland and Labrador	\$150,000 <sup>(2)</sup>	\$150,000 <sup>(2)</sup>	\$150,000 <sup>(2)</sup>	\$150,000 <sup>(2)</sup>	\$150,000 <sup>(2)</sup>	\$5,000 <sup>(3)</sup>

**Notes:**

- (1) You may qualify as an “accredited investor” if you are:
- (a) an individual who, either alone or together with your spouse, beneficially owns financial assets (including cash and securities) that have an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$1 million;
  - (b) an individual whose net income before taxes exceeded \$200,000 in each of the past two calendar years (or whose net income before taxes combined with that of your spouse exceeded \$300,000 in each of those calendar years) and who has a reasonable expectation of exceeding that net income level in the current calendar year; or
  - (c) a company, limited partnership, limited liability partnership, trust or estate (other than a mutual fund or non-redeemable investment fund) that has net assets of at least \$5 million, as shown on its most recently prepared financial statements.
- There are other categories under which you may qualify as an accredited investor. Additional categories are set out in the subscription agreement for the Fund and in applicable securities laws. **If you are unsure whether you qualify as an accredited investor, you should obtain advice from your professional advisor before investing in the Fund.**
- (2) This minimum initial investment amount applies to non-individuals only. Individuals may not make an initial investment in the Fund unless they are (i) accredited investors, or (ii) resident in British Columbia or Newfoundland and Labrador.
- (3) You may only make additional investments in this minimum amount if: (a) you previously acquired units for an aggregate purchase price of not less than \$150,000 and are acquiring units of the same series so previously purchased; and (b) at the time you make your additional investment the units you hold either have an aggregate purchase price or a net asset value of not less than \$150,000. If you do not meet both of these conditions, your minimum additional investment will be \$150,000.

**Any subscription funds received by us prior to the relevant purchase date will be held in the Fund’s general bank account. These funds will not be segregated for your account. You will not be entitled to any interest on any subscription funds delivered to us prior to the relevant purchase date. Any interest earned on such funds will belong to the Fund.**

You will become a unitholder after we accept your subscription agreement and the Fund has received the purchase price for your units. We will hold your subscription monies in trust for you until the day on which you become a unitholder.

**You and your professional advisors should review all subscription documents before you purchase units.**

## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a fair summary of the principal Canadian federal income tax considerations, as of the date hereof, with respect to the acquisition, ownership and disposition of units generally applicable to an individual unitholder, other than a trust, who for purposes of the *Income Tax Act* (Canada) (defined above as the “**Tax Act**”), is resident in Canada and holds units as capital property.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the “**Regulations**”), proposals for specific amendments to the Tax Act and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date of this Offering Memorandum, and the current administrative practices and policies of the Canada Revenue Agency. This summary does not take into account or anticipate any changes in law, whether by legislative, regulatory, administrative or judicial action, or take into account provincial, territorial, or foreign income tax legislation or considerations. The Fund has qualified as a “mutual fund trust” under the Tax Act throughout its current taxation year and is expected to continue to qualify as a “mutual fund trust” under the Tax Act at all times in the future. This summary assumes that the Fund has, and will continue to, qualify, at all material times, as a “mutual fund trust” under the Tax Act. If the Fund were not to so qualify as a “mutual fund trust” under the Tax Act, the tax considerations could be materially different from those described below.

**This summary is of a general nature only and is not intended to constitute advice to any particular investor. You should consult your own professional advisors to obtain advice on the tax consequences that apply to you.**

### **Taxation of the Fund**

Generally, the Fund is subject to tax under Part I of the Tax Act on its taxable income for each year (including net taxable capital gains) less the portion thereof that is paid or payable to unitholders. Provided that, in each year, the Fund distributes to unitholders a sufficient amount of its net income and net realized capital gains, it will not be liable for tax under Part I of the Tax Act. Gains and losses of the Fund from transactions in derivatives will generally result in ordinary income and losses rather than capital gains and capital losses, though the tax treatment of such gains and losses may change depending on the specific facts and circumstances involved. In certain circumstances, losses of the Fund may be suspended or restricted and therefore would be unavailable to shelter capital gains or income.

All of the Fund’s deductible expenses, including expenses common to all series of the Fund and management fees and other expenses specific to a particular series of the Fund, will be taken into account in determining the income or loss of the Fund as a whole.

### **Taxation of Unitholders**

Generally, a unitholder must include in computing income for tax purposes for a particular year the portion of the net income and the taxable portion of the net realized capital gains of the Fund that is paid or payable to the unitholder in the year. A unitholder must include such amounts in income even though they are reinvested in additional units. Unitholders will be taxed on distributions of income and capital gains even if the income and capital gains accrued to the Fund or were realized by the Fund before the unitholder acquired units and were reflected in the purchase price of the units.

Net taxable capital gains of the Fund and taxable dividends received by the Fund on shares of taxable Canadian corporations, if any, that are paid or payable to a unitholder may be designated by the Fund as taxable capital gains and taxable dividends earned by the unitholder and, if so designated, will be subject to the special tax treatment applicable to income of that character, including the enhanced gross-up and dividend tax credit for eligible dividends. As well, the Fund may make designations in respect of its foreign source income so that, for the purposes of computing any foreign tax credit to a unitholder, the unitholder will generally be deemed to have paid as foreign tax the unitholder’s proportionate share of the foreign taxes paid by the Fund.

To the extent that distributions by a trust to a unitholder in a year exceed the unitholder’s share of the net income and net realized capital gains of the Fund for the year, those distributions (except to the extent that



they are proceeds of disposition) will be a return of capital and will not be taxable to the unitholder but will reduce the adjusted cost base of the unitholder's units. Alternatively, if an excess distribution is made, the Fund can make designations under the Tax Act so that the excess amount is treated as additional income of the Fund in respect of that taxation year and can be deducted from its income in the following year.

When a unitholder disposes of units, including on the redemption of units, the unitholder will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, less any associated costs of disposition, are greater (or less) than the adjusted cost base of the units. Generally, one-half of a capital gain is included in determining a unitholder's income and one-half of a capital loss may be deducted against taxable capital gains, subject to and in accordance with the rules in the Tax Act. Redesignating units of one series of the Fund as units of another series of the Fund will not result in a disposition.

Capital gains and Canadian dividends may result in a liability for alternative minimum tax under the Tax Act.

### **Eligibility for Registered Plans**

The Fund currently qualifies as a "mutual fund trust" under the Tax Act. Provided that the Fund continues to qualify as a "mutual fund trust" under the Tax Act at all material times, units will be "qualified investments" under the Tax Act for RRSPs (including LIRAs), RRIFs (including LIFs), DPSPs, RESPs, RDSPs and TFSAs. Annuitants of RRSPs and RRIFs, holders of TFSAs and RDSPs, and subscribers of RESPs, should consult with their own tax advisors as to whether units of the Fund would constitute a "prohibited investment" under the Tax Act in their particular circumstances.

### **Tax Information Reporting**

Pursuant to the Intergovernmental Agreement for the Enhanced Exchange of Tax Information under the Canada-United States Tax Convention entered into between Canada and the U.S. on February 5, 2014 (the "IGA"), and related Canadian legislation, the Fund and/or registered dealers are required to report certain information with respect to unitholders who are U.S. residents and U.S. citizens (including U.S. citizens who are residents or citizens of Canada), and certain other "U.S. Persons" as defined under the IGA (excluding registered plans such as RRSPs), to Canada Revenue Agency ("CRA"). It is expected that the CRA will then exchange the information with the U.S. Internal Revenue Service. In addition, to meet the objectives of the Organization for Economic Co-operation and Development Common Reporting Standards (the "CRS"), the Fund and/or registered dealers are required under Canadian legislation to identify and report to the CRA certain information relating to certain unitholders in the Fund (excluding registered plans such as RRSPs) who are residents in a country outside of Canada and the U.S. The CRA's expects to provide that information to the tax authorities of the relevant jurisdiction that has adopted the CRS.

### **COMPENSATION PAID TO SELLERS AND FINDERS**

No selling commissions or fees will be paid by the Fund or us in connection with the sale of units under this Offering Memorandum. However, if you acquire your Series A units through an approved salesperson of an authorized dealer, we will pay a service fee to that salesperson (or to the dealer for that salesperson) for on-going advice and service provided to you. We will pay this service fee for as long as you continue to hold Series A units through the authorized dealer. Service fees will be calculated and payable by us at least semi-annually and may be up to 0.75% per annum of the net asset value of the units you hold. As at the date of this Offering Memorandum we do not pay a service fee with respect to Series F units, Series K units, Series L units or Series O units.

Your dealer may charge you an up-front fee when you purchase your units. This fee is negotiated between you and your dealer.

## **RISK FACTORS**

The purchase of units involves a number of significant risk factors. In addition to the factors set forth elsewhere in this Offering Memorandum, you should consider the following:

### **Risks Associated with an Investment in the Fund**

#### ***Investment risk***

An investment in the Fund may be deemed speculative and is not intended as a complete investment program. A subscription for units should be considered only by persons financially able to maintain their investment and who can bear the risk of loss associated with an investment in the Fund. Investors should review closely the investment objective and policies and restrictions to be utilized by the Fund as outlined herein.

#### ***No assurance***

The series net asset value of units, and the funds available for distributions to unitholders, will vary directly with the market value and return of the investment portfolio of the Fund, including the income earned on debt securities held by the Fund from time to time. There is no guarantee that the Fund will be able to achieve its investment objective, or that the Fund will earn a positive return.

#### ***Reliance on the manager***

As unitholders, investors will not be entitled to participate in the management or control of the Fund or its operations. The Fund will be dependent on our knowledge and expertise for fund management and portfolio management services. The loss of our services as manager of the Fund, or the loss of the services of our key personnel could adversely affect the performance of the Fund.

#### ***Lack of independent experts representing unitholders***

Each of the Fund and the Manager has consulted with a single legal counsel regarding the terms of the Fund and the offering of units. The unitholders have not, however, been independently represented. Each prospective investor should consult his or her own legal, tax and financial advisers regarding the desirability of purchasing units and the suitability of investing in the Fund.

#### ***Marketability and transferability of units***

Units are not transferable, other than by operation of law. Accordingly, unitholders will generally not be able to dispose of their units other than by way of a redemption of their units, which redemption will be subject to the limitations described above under *Description of Units – Redemption of Units*. Unitholders may not be able to liquidate their investments in a timely manner. As a result, an investment in units is suitable only for sophisticated investors who do not require liquidity for their investment and are able to bear the financial risk of the investment for an extended period of time.

### ***Nature of units***

The units are neither fixed income nor equity securities. The units represent a fractional interest in the net assets of the Fund. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation, including, for example, the right to bring “oppression” or “derivative” actions.

### ***Liability of unitholders***

The Trust Indenture provides that no unitholder will be subject to any liability whatsoever, in tort, contract or otherwise, to any person in connection with the Fund’s assets or the obligations or affairs of the Fund and all such persons will look solely to the Fund’s assets for satisfaction of claims of any nature arising out of or in connection therewith. There is a risk, which we consider to be remote in the circumstances, that a unitholder could be held personally liable, notwithstanding the foregoing statement in the Trust Indenture, for obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. It is intended that the operations of the Fund will be conducted in such a manner so as to minimize such risk.

### ***Tax risk***

If the Fund ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the heading *Canadian Federal Income Tax Considerations* would be materially and adversely different in certain respects. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canada Revenue Agency respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the unitholders.

If the Fund experiences a “loss restriction event” (i) the Fund will be deemed to have a year-end for tax purposes (which could result in the Fund being subject to tax unless it distributes its income and capital gains prior to such year-end), and (ii) the Fund will become subject to the loss restriction rules generally applicable to corporations that experience an acquisition of control, including a deemed realization of any unrealized capital losses and restrictions on their ability to carry forward losses. Generally, the Fund will be subject to a loss restriction event when a person becomes a “majority-interest beneficiary” of the Fund, or a group of persons becomes a “majority-interest group of beneficiaries” of the Fund, as those terms are defined in the affiliated persons rules contained in the Tax Act, with appropriate modifications. Generally, a majority-interest beneficiary of the Fund will be a beneficiary who, together with the beneficial interests of persons and partnerships with whom the beneficiary is affiliated, has a fair market value that is greater than 50% of the fair market value of all the interests in the income or capital, respectively, in the Fund. Generally, a person will be deemed not to become a majority-interest beneficiary of the Fund, and a group of persons will be deemed not to become a majority-interest group of beneficiaries of the Fund. Generally, a loss restriction event will be deemed not to occur for a Trust Fund if it meets the conditions to qualify as an “investment fund” under the Tax Act, including complying with certain asset diversification requirements.

### ***Foreign taxation***

No assurances can be given that the Fund will not be subject to withholding or other taxes in foreign jurisdictions in which trades are made by or on behalf of the Fund or in which the Fund otherwise carries on investing.

### ***Changes in applicable law***

Legal, tax and other regulatory changes may occur that may adversely affect the Fund and investors.

### ***Trading errors***

In the course of carrying out trading and investing responsibilities on behalf of the Fund, our employees may make “trading errors” — i.e., errors in executing specific trading instructions. Trading errors are an intrinsic factor in any investment process, and will occur notwithstanding the exercise of due care and special procedures designed to prevent trading errors. Trading errors are, therefore, distinguishable from errors in judgment, due diligence or other factors leading to a specific trading instruction being generated, as well as from unauthorized trading or other improper conduct by our employees. Consequently, we will generally treat all trading errors (including those which result in losses and those which result in gains) as for the account of the Fund, unless they are the result of conduct which is inconsistent with our standard of care.

### ***Not a public mutual fund***

The Fund is not subject to the restrictions placed on public mutual funds to ensure diversification and liquidity of the Fund’s portfolio.

### ***Valuation of the Fund’s investments***

Valuation of the Fund’s securities and other investments may involve uncertainties and judgmental determinations and, if such valuations should prove to be incorrect, the net asset value of the Fund and the series net asset value of the units could be adversely affected. Independent pricing information may not at times be available regarding certain of the Fund’s securities and other investments. Valuation determinations will be made in good faith in accordance with the Trust Indenture.

The Fund may, from time to time, have some of its assets in investments, which by their very nature may be extremely difficult to value accurately. To the extent that the value assigned by the Fund to any such investment differs from the actual value, the net asset value of the Fund and the series net asset value of the units may be understated or overstated, as the case may be. The Fund does not intend to adjust the net asset value of the Fund or the series net asset value of the units retroactively in the absence of manifest error.

### ***Effect of substantial redemption***

Substantial redemptions by investors within a short period of time could require the Fund to liquidate securities and other positions more rapidly than would otherwise be desirable, possibly reducing the value of its assets and/or disrupting its investment strategy. Further, it may be impossible to liquidate a sufficient amount of securities to meet redemptions because a significant part of the portfolio at any given time may be invested in securities for which the market is or becomes illiquid. Reduction in the size of the Fund could make it more difficult to generate a positive return or to recoup losses due to, among other things, reductions in the Fund’s ability to take advantage of particular investment opportunities or decreases in the ratio of its income to its expenses.

### ***Fees and expenses***

The Fund is obligated to pay management fees, brokerage commissions and other expenses regardless of whether the Fund realizes a profit. Under certain circumstances, the Fund may be subject to significant indemnification obligations in respect of us, the Trustee and other service providers. The Fund will not carry any insurance to cover such potential obligations. Any indemnification paid by the Fund would reduce the net asset value of the Fund and, by extension, the value of the units.

### ***Series risk***

The Fund has different series of units. If the Fund cannot pay the fees and expenses attributable to one series of units using the proportionate share of the Fund's assets attributable to that series, the Fund may be required to pay those fees and expenses out of one or more of the other series' proportionate share of the Fund's assets. This may reduce the value of your investment in the Fund.

### ***Potential conflicts of interest***

We also act as the manager and portfolio adviser for other investment funds, and as the portfolio adviser for our investment advisory clients. Situations may arise in which our activities on behalf of other clients may disadvantage the Fund, such as an inability of the market to fully absorb orders for the purchase or sale of particular investments placed for the Fund and other clients at prices and in quantities which would be obtainable if the same were being placed only for the Fund.

### ***Cyber security risk***

The Fund and its service providers' use of internet, technology, and information systems may expose the Fund to potential risks linked to cyber security breaches of those technological or information systems. Cyber security breaches, amongst other things, could allow an unauthorized party to gain access to proprietary information, customer data, or Fund assets, or cause the Fund and/or its service providers to suffer data corruption or lose operational functionality.

## **Risks Associated with the Fund's Underlying Investments**

### ***Fixed income securities***

Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Fund invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can fluctuate in response to perceptions of the creditworthiness of the issuer, political stability or soundness of economic policies, as well as general market liquidity. Fixed income securities are also subject to the risk of the issuer's inability to meet principal and interest payments on its obligations. Certain of the fixed income securities held by the Fund from time to time may be unsecured, which will increase the risk of loss in case of default or insolvency of the issuer. To the extent that we elect not to or are unable to hedge these risks, the Fund may be adversely impacted.

### ***Corporate debt securities***

The assets of the Fund may consist of corporate bonds or other debt instruments ("**debt securities**") of issuers with ratings of BBB or below by Standard & Poor's Rating Group (a division of The McGraw Hill Companies, Inc.) or another equivalent credit rating organization.

The debt securities held in the Fund's portfolio may experience greater volatility in the market than higher rated debt securities and the market's perception of the issuers of these securities, including perceptions of creditworthiness, may significantly affect the value of these debt securities. Some debt securities may be structured in ways that make their reaction to interest rate changes and other market factors difficult to predict, causing their prices to be highly volatile.

Lower rated debt may be less liquid than investment rated securities. During periods of thin trading, the spread between bid and ask prices is likely to increase significantly and we may have difficulty selling such

securities. There are no formal exchanges on which such high yield debt trades. Accordingly, there may be limited liquidity for holders of such high yield debt.

### ***Interest rate fluctuations***

Interest rate fluctuations could have an adverse effect on the value of the debt securities held by the Fund.

### ***Credit risk***

The value of fixed income and debt securities depends, in part, on the perceived ability of the government or company or other entity that issued the securities to pay the interest and to repay the original investments. The risk of an issuer failing to do this is greater with some issuers than with others. A downgrade to an issuer's credit rating or a perceived change in an issuer's financial strength may negatively affect a security's value and thus impact the Fund's performance. Credit risk is generally greater for fixed income securities with ratings below investment grade.

### ***Credit market disruptions***

From time to time, the credit markets are subject to periods in which there is a severe contraction of both liquidity and available leverage.

### ***General economic and market conditions***

The success of the Fund's activities may be affected by general economic and market conditions, such as inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Fund's investments.

### ***Performance and marketability of underlying securities***

The series net asset value per unit will vary in accordance with the value of the securities (including futures contracts and other derivative instruments) acquired by the Fund and attributable to the units. There is no assurance that the securities acquired by the Fund can be sold for the values used to calculate the series net asset value per unit or at a time that the Fund requires cash for operational or trading purposes.

### ***Foreign obligations***

Investments in obligations of foreign entities and instruments denominated in foreign currencies involve risks not normally associated with domestic investment such as currency fluctuations, investment controls and political events.

### ***Liquidity risk***

The market for some securities in which the Fund may invest may be relatively illiquid. The market for relatively illiquid securities may restrict the ability of the Fund to dispose of its investments at a price and time that it wishes to do so.

### ***Currency risk***

The Fund will have exposure to fluctuations in currency exchange rates where it invests directly or indirectly in securities denominated in currencies other than Canadian dollars. It may, in part, seek to offset the risks associated with such exposure through foreign exchange transactions. Foreign exchange trading

risks include, but are not limited to, exchange rate risk, interest rate risk and potential interference by foreign governments through regulation of local exchange markets, foreign investment, or particular transactions in foreign currency.

### ***Concentration***

To the extent that the Fund takes concentrated positions, there is less diversification and therefore greater risk of loss to the Fund from any one position.

### ***General derivatives risk***

The Fund may use derivative financial instruments, including, without limitation, credit default swaps, options, futures, forwards, interest rate swaps, and cross-currency swaps and may use derivative techniques for hedging and for trading purposes, including for the purpose of obtaining the economic benefit of an investment in an entity without making a direct investment. The risks posed by such instruments and techniques, which can be extremely complex, include, in addition to the risks outlined above: (i) legal risks (the characterization of a transaction or a party's legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); (ii) operations risk (inadequate controls, deficient procedures, human error, system failure or fraud); (iii) documentation risk (exposure to losses resulting from inadequate documentation); (iv) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative or a cease trade order being issued in respect of the underlying security); (v) investment risk arising from the disappearance of any conversion premium due to premature redemptions, changes in conversion terms or changes in issuer's dividend policy; and (vi) lack of liquidity during market panics.

Although a derivative hedge reduces risk, it does not eliminate risk entirely.

### ***Income trust risk***

The Fund may, from time to time, invest in income trusts. Income trusts commonly hold debt or equity securities in, or are entitled to receive royalties or distributions from, an underlying active business. Income trusts generally fall into four sectors: business trusts, utility trusts, resource trusts and real estate investment trusts. Investments in income trusts will have varying degrees of risk depending on the sector and the underlying assets. They will also be subject to general risks associated with business cycles, commodity prices, interest rates and other economic factors.

Returns on income trusts are neither fixed nor guaranteed. Typically income trusts and other securities that are expected to distribute income are more volatile than fixed-income securities and preferred shares. The value of income trust units may decline significantly if they are unable to meet their distribution targets. To the extent that claims against an income trust are not satisfied by the trust, investors in the income trust (which include a fund that invests in the income trust), could be held responsible for such obligations. Some, but not all, jurisdictions have enacted legislation to protect investors from some of this liability.

## **REPORTING OBLIGATIONS TO UNITHOLDERS**

### **Delivery of Financial Statements**

As the Fund is not a "reporting issuer" under applicable securities laws, the continuous reporting requirements under those laws do not apply to the Fund. The Fund sends annual audited financial statements to unitholders within 140 days of the end of each fiscal year. The Fund's fiscal year end is

currently December 31<sup>st</sup>. You may request a copy of the financial statements by contacting us at the address, numbers or e-mail address set out on the front cover.

### **Income Tax Statements**

On or before March 31<sup>st</sup> each year, we will provide you with the information you require regarding distributions and allocations to your units during the previous year in order to complete your income tax return for that year.

### **Distributions**

We will advise you, not less than once annually, of any income distributions and capital gain distributions made by the Fund.

### **RESALE RESTRICTIONS**

In addition to the restrictions on transfer set forth in the Trust Indenture (which are described above in the section called *Description of Units – Transfer of Units*), units are also subject to resale restrictions under applicable securities laws. These resale restrictions are described below.

Units are subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus requirements under securities legislation. **However, we note that securities legislation in Canada does contain exemptions that will permit you to redeem your units.** See the section above called *Description of Units – Redemption of Units*.

Unless permitted under securities legislation, you cannot trade units before the date that is four months and a day after the date that the Fund becomes a reporting issuer in any province or territory of Canada. For trades in Manitoba, unless permitted under securities legislation, you must not trade in the securities without the prior written consent of the regulator in Manitoba unless: (a) the Fund has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or (b) you have held the securities for at least 12 months. The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest. Again, we note that securities legislation will permit you to redeem your units. See the section above called *Description of Units – Redemption of Units*.

### **PURCHASERS' RIGHTS**

If you purchase units, you will have certain rights, some of which are described below. For information about your rights, you should consult a lawyer. The following summaries of investors' legal rights are subject to the express provisions of the securities laws of the applicable province or territory in which they are resident and reference is made thereto for the complete text of such provisions. The rights of action described below are in addition to and without derogation from any right or remedy available at law to the investor and are intended to correspond to the provisions of the relevant securities legislation and are subject to the defences contained therein.

### **Two Day Cancellation Right**

You can cancel your agreement to purchase units. To do so, you must send a notice to us by midnight on the second business day after you sign the agreement to buy units.



## Statutory Rights of Action

For purposes of the following summaries, “**misrepresentation**” means an untrue statement of a material fact or an omission to state a material fact that is necessary in order to make a statement not misleading in light of the circumstances in which it was made.

### *British Columbia*

If this offering memorandum, together with any amendment hereto, is delivered to a purchaser resident in British Columbia who purchases units in reliance on the offering memorandum exemption in section 2.9 of National Instrument 45-106 *Prospectus Exemptions* (“**NI 45-106**”) and contains a misrepresentation and it was a misrepresentation at the time of purchase, the purchaser will be deemed to have relied upon the misrepresentation and will have a right of action for damages against the Fund, the Manager and every person who signed this offering memorandum (if applicable) or, alternatively, while still the owner of the purchased units, for rescission against the Fund, provided that:

1. no action may be commenced to enforce a right of action:
  - (a) for rescission more than 180 days after the date of the purchase; or
  - (b) for damages more than the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of purchase;
2. no person or company will be liable if the person or company proves that the purchaser purchased the units with knowledge of the misrepresentation;
3. no person or company (but excluding the Fund) will be liable if the person or company proves that (i) the offering memorandum was delivered to the purchaser without the person’s or company’s knowledge or consent and that, on becoming aware of its delivery, the person or company gave written notice to the Fund that it was delivered without the person’s or company’s knowledge or consent, (ii) on becoming aware of any misrepresentation in the offering memorandum, the person or company withdrew the person’s or company’s consent to the offering memorandum and gave written notice to the Fund of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
4. no person or company (but excluding the Fund) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert, or to be a copy of, or an extract from, a report, opinion or statement of expert unless the person or company failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation, or believed that there had been a misrepresentation;
5. in an action for damages, the person or company will not be liable for all or any portion of the damages that the person or company proves does not represent the depreciation in value of the units as a result of the misrepresentation; and

6. in no case will the amount recoverable exceed the price at which the units were sold to the purchaser.

In addition, a person or company is not liable for a misrepresentation in forward-looking information if the person or company proves that:

1. the offering memorandum contains reasonable cautionary language that is proximate to such information identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the person or company has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

### ***Alberta***

If this offering memorandum, together with any amendment to this offering memorandum, is delivered to a purchaser resident in Alberta who purchases units in reliance on the prospectus exemption in section 2.10 of NI 45-106 (the minimum amount investment or \$150,000 investment exemption) and contains a misrepresentation, without regard to whether the investor relied upon the misrepresentation, the investor will have a right of action for damages against the Fund, the Manager, and every person who signed the offering memorandum or, alternatively, for rescission against the Fund, provided that:

1. no action may be commenced to enforce a right of action:
  - (a) for rescission more than 180 days after the date of the purchase; or
  - (b) for damages more than the earlier of (A) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (B) three years from the date of purchase;
2. no person or company will be liable if the person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation;
3. no person or company (but excluding the Fund) will be liable if the person or company proves that (i) the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of it being sent, the person or company gave reasonable notice to the Fund that it was sent without the person's or company's knowledge or consent, (ii) after sending of the offering memorandum and before the purchase of units by the purchaser, on becoming aware of any misrepresentation in the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum and gave reasonable notice to the Fund of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
4. no person or company (but excluding the Fund) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert, or to be a copy of, or an

extract from, a report, opinion or statement of expert unless the person or company failed to conduct an investigation to provide reasonable grounds for a belief that there had been no misrepresentation, or believed that there had been a misrepresentation;

5. in an action for damages, the person or company will not be liable for all or any portion of the damages that the person or company proves does not represent the depreciation in value of the securities as a result of the misrepresentation; and
6. in no case shall the amount recoverable exceed the price at which the securities were offered under the offering memorandum.

In addition, a person or company will not be liable for a misrepresentation in forward-looking information if the person or company proves that:

1. this offering memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

This defence does not however relieve a person or company of liability respecting forward-looking information in a financial statement.

### ***Saskatchewan***

If this offering memorandum, together with any amendment to this offering memorandum, is sent or delivered to a purchaser resident in Saskatchewan and contains a misrepresentation at the time of purchase, the purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right for damages against the Fund, the Manager, every promoter of the Fund, every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them, every person who signed this offering memorandum (if applicable) and every person or company who sells units on behalf of the Fund, or alternatively, while still the owner of the purchased units, for rescission against the Fund, provided that:

1. no action will be commenced to enforce the foregoing rights:
  - (a) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
  - (b) in the case of any action, other than an action for rescission, more than the earlier of (i) one year after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) six years after the date of the transaction that gave rise to the cause of the action;
2. no person or company will be liable if the person or company proves that the investor purchased the units with knowledge of the misrepresentation;

3. no person or company (other than the Fund) will be liable if the person or company proves that (i) the offering memorandum or amendment was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, the person or company immediately gave reasonable general notice to the Fund that it was sent or delivered without the person's or company's knowledge, (ii) after filing of the offering memorandum and before the purchase of units by the purchaser, on becoming aware of any misrepresentation, the person or company withdrew the person's or company's consent to the offering memorandum and gave reasonable general notice to the Fund of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of or extract from the report, opinion or statement of the expert;
4. no person or company (other than the Fund) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert, or to be a copy of or an extract from a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed there had been a misrepresentation;
5. no person or company (other than the Fund) will be liable with respect to any part of the offering memorandum purporting to be made on the person's or company's own authority as an expert or purporting to be a copy of or an extract from the person's or company's own report, opinion or statement as an expert that contains a misrepresentation attributable to failure to represent fairly his, her or its report, opinion or statement as an expert if (i) the person or company had, after reasonable investigation, reasonable grounds to believe, and did believe, that the part of the offering memorandum fairly represented the person's or company's report, opinion or statement; or (ii) on becoming aware that the part of the offering memorandum did not fairly represent the person's or company's report, opinion or statement as an expert, the person or company immediately advised the Saskatchewan Financial Consumer Affairs Authority and gave reasonable general notice that such use had been made of it and that the person or company would not be responsible for that part of the offering memorandum;
6. no person or company (other than the Fund) will be liable with respect to any part of the offering memorandum (i) with respect to a false statement purporting to be a statement made by an official person or contained in what purports to be a copy of or extract from a public official document if the statement was a correct and fair representation of the statement or copy of or extract from the document and the person or company had reasonable grounds to believe, and did believe that the statement was true; or (ii) with respect to any part of the offering memorandum purporting to be made on the person's or company's own authority as an expert or purporting to be a copy of or an extract from the person's or company's own report, opinion or statement as an expert, unless the person or company (A) failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation; or (B) believed there had been a misrepresentation; and
7. in no case shall the amount recoverable exceed the price at which the units were sold to the investor.

In addition, a person or company is not liable for a misrepresentation in forward-looking information if the person or company proves that:

1. the offering memorandum contains reasonable cautionary language that is proximate to such information identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the person or company has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

If the person or company who sells the purchaser units is selling in contravention of securities laws of Saskatchewan or in contravention of an order of the Saskatchewan Financial Services Commission, the purchaser may choose to void the contract for units or to recover all of the money paid by the purchaser for units.

A purchaser resident in Saskatchewan who has entered into an agreement for the purchase of units, which has not yet been completed, and who receives an amendment to this offering memorandum that discloses (i) a material change in the affairs of the Fund, (ii) a change in the terms or conditions of the offering as described in this offering memorandum or (iii) securities to be distributed that are in addition to the units described in this offering memorandum, that occurred or arose before the purchaser entered into the agreement for the purchase of the units, may within two business days of receiving the amendment deliver a notice to the Fund or agent through whom the units are being purchased indicating the investor's intention not to be bound by the purchase agreement.

### ***Manitoba***

If this offering memorandum or any amendment hereto contains a misrepresentation, a purchaser resident in Manitoba is deemed to have relied on the misrepresentation and has a right of action for damages against the Fund, the Manager and every person who signed this offering memorandum (if applicable) or, alternatively, while still the owner of the purchased units, a right of rescission against the Fund, provided that:

1. no action may be commenced to enforce a right of action:
  - (a) for rescission more than 180 days after the date of the purchase; or
  - (b) for damages, more than the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) two years after the date of the purchase;
2. no person or company will be liable if the person or company proves that the purchaser purchased the units with knowledge of the misrepresentation;
3. no person or company (other than the Fund) will be liable if the person or company proves that (i) the offering memorandum was sent to the purchaser without the person's or company's consent, and that, after becoming aware that it was sent, the person or company promptly gave reasonable notice to the Fund that it was sent without the person's or company's knowledge or consent, (ii) on becoming aware of the misrepresentation, the person or company withdrew their respective consent to the offering memorandum and gave reasonable notice to the Fund of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made

on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report or statement;

4. no person or company (other than the Fund) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation;
5. in no case will the amount recoverable exceed the price at which the units were sold to the purchaser; and
6. in an action for damages, the person or company will not be liable for all or any portion of the damages that the person or company proves does not represent the depreciation in value of the units as a result of the misrepresentation.

In addition, a person or company is not liable for a misrepresentation in forward-looking information if the person or company proves that:

1. the offering memorandum contains reasonable cautionary language that is proximate to such information identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions applied in drawing a conclusion or making the forecast or projection; and
2. the person or company has a reasonable basis for drawing the conclusion or making the forecasts or projections set out in the forward-looking information.

### ***Ontario***

If this offering memorandum, together with any amendment to this offering memorandum, contains a misrepresentation, a purchaser in the Province of Ontario will have, without regard to whether the misrepresentation was relied upon by the purchaser, a right of action for damages against the Fund or, at the election of the purchaser, for rescission (in which case the purchaser will cease to have a right of action for damages), provided that:

1. no action may be commenced to enforce a right of action:
  - (a) for rescission more than 180 days after the date of the purchase; or
  - (b) for damages more than the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, and (ii) three years after the date of purchase;
2. the Fund will not be liable if it proves that the purchaser purchased the units with knowledge of the misrepresentation;

3. in an action for damages, the Fund will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the units as a result of the misrepresentation relied upon; and
4. in no case will the amount recoverable exceed the price at which the units were sold to the purchaser.

In addition, the Fund will not be liable for a misrepresentation in forward-looking information if the Fund proves that:

1. this offering memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the Fund had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

The foregoing rights do not apply if the purchaser is:

1. a Canadian financial institution (as defined in NI 45-106) or a Schedule III bank;
2. the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
3. a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

### ***New Brunswick***

If this offering memorandum, together with any amendment to this offering memorandum, delivered to a purchaser resident in New Brunswick contains a misrepresentation that was a misrepresentation at the time of purchase, the purchaser will be deemed to have relied on the misrepresentation and will have a right of action for damages against the Fund, the Manager and every person who signed this offering memorandum (if applicable) or, alternatively, while still the owner of the purchased units, for rescission against the Fund, provided that:

1. no action may be commenced to enforce a right of action:
  - (a) for rescission more than 180 days after the date of the purchase; or
  - (b) for damages more than the earlier of (i) one year after the purchaser first had knowledge of the facts giving rise to the cause of action, and (ii) six years after the date of purchase;
2. the Fund will not be liable if it proves that the purchaser purchased the units with knowledge of the misrepresentation;

3. in an action for damages, the Fund will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the units as a result of the misrepresentation relied upon; and
4. in no case will the amount recoverable exceed the price at which the units were sold to the investor.

In addition, a person or company is not liable for a misrepresentation in forward-looking information if the person or company proves that:

1. the offering memorandum contains reasonable cautionary language that is proximate to such information identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the person or company has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

This defence does not however relieve a person or company of liability respecting forward-looking information in a financial statement.

### ***Nova Scotia***

If this offering memorandum, together with any amendment to this offering memorandum or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)), contains a misrepresentation and it was a misrepresentation at the time of purchase, a purchaser resident in Nova Scotia will be deemed to have relied upon the misrepresentation and will have a right of action for damages against the Fund, the Manager and every person who signed this offering memorandum (if applicable) or, alternatively, while still the owner of the purchased units, for rescission against the Fund, provided that:

1. no action may be commenced to enforce a right of action more than 120 days:
  - (a) after the date on which payment was made for the units; or
  - (b) after the date on which the initial payment was made for the units where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently within, the initial payment;
2. no person or company will be liable if the person or company proves that the investor purchased the units with knowledge of the misrepresentation;
3. no person or company (other than the Fund) will be liable if the person or company proves that (i) the offering memorandum was sent or delivered to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of its delivery, the person or company gave reasonable general notice that it was delivered without the person's or company's knowledge or consent, (ii) after delivery of the offering memorandum and before the purchase of the units by the purchaser, on becoming aware of any misrepresentation in the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no



reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;

4. no person or company (other than the Fund) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert, or to be a copy, or an extract from, a report, opinion or statement of expert unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation, or (ii) believed that there had been a misrepresentation;
5. in an action for damages, the person or company will not be liable for all or any portion of the damages that the person or company proves does not represent the depreciation in value of the units as a result of the misrepresentation relied upon; and
6. in no case will the amount recoverable in any action exceed the price at which the units were sold to the investor.

In addition, a person or company is not liable for a misrepresentation in forward-looking information if the person or company proves that:

1. the offering memorandum contains reasonable cautionary language that is proximate to such information identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the person or company has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

This defence does not however relieve a person or company of liability respecting forward-looking information in a financial statement.

### ***Prince Edward Island***

If this offering memorandum, together with any amendment to this offering memorandum, delivered to a purchaser resident in Prince Edward Island contains a misrepresentation and it was a misrepresentation at the time of purchase, the purchaser will have, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the Fund, the Manager and every person who signed this offering memorandum (if applicable) or, alternatively, while still the owner of the purchased units, for rescission against the Fund, provided that:

1. no action will be commenced to enforce the foregoing rights:
  - (a) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
  - (b) in the case of any action, other than an action for rescission, more than the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of the action, or (ii) three years after the date of the transaction that gave rise to the cause of the action;

2. no person or company will be liable if the person or company proves that the purchaser purchased the units with knowledge of the misrepresentation;
3. no person or company (other than the Fund) will be liable if it proves that (i) the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of it being sent, the person or company gave reasonable general notice that it was sent without the person's or company's knowledge or consent, (ii) after the sending of the offering memorandum and before the purchase of the units by the purchaser, on becoming aware of any misrepresentation in the offering memorandum, the person or company withdrew the person's or company's consent to the offering memorandum and gave reasonable general notice of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert, the person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
4. no person or company (other than the Fund) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or a statement of an expert unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation;
5. in an action for damages, the person or company will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the units as a result of the misrepresentation relied upon; and
6. in no case will the amount recoverable exceed the price at which the units were sold to the investor.

In addition, a person or company is not liable for a misrepresentation in forward-looking information if the person or company proves that:

1. the offering memorandum contains reasonable cautionary language that is proximate to such information identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the person or company has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

This defence does not however relieve a person or company of liability respecting forward-looking information in a financial statement required to be filed under Prince Edward Island securities laws.

### ***Newfoundland and Labrador***

If this offering memorandum, together with any amendment to this offering memorandum contains a misrepresentation and it was a misrepresentation at the time of purchase, a purchaser in the Province of Newfoundland and Labrador has, in addition to any other right that the purchaser may have under law and without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the Fund, the Manager and every person or company who signed this offering memorandum (if

applicable), for damages or, alternatively, while still the owner of the purchased units, for rescission against the Fund (in which case the purchaser will cease to have a right of action for damages), provided that:

1. no action will be commenced to enforce the foregoing rights:
  - (a) in the case of an action for rescission, more than 180 days after the date of the transaction that gave rise to the cause of action; or
  - (b) in the case of any action, other than an action for rescission, more than the earlier of: (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of the action; or (ii) three years after the date of the transaction that gave rise to the cause of the action;
2. no person or company will be liable if the person or company proves that the purchaser purchased the units with knowledge of the misrepresentation;
3. no person or company (other than the Fund) will be liable if:
  - (a) the person or company proves that this offering memorandum was sent to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of it being sent, the person or company promptly gave reasonable notice to the Fund that it was sent without the knowledge and consent of the person or company;
  - (b) the person or company proves that the person or company, on becoming aware of any misrepresentation in this offering memorandum, withdrew the person's or company's consent to this offering memorandum and gave reasonable notice of the withdrawal to the Fund and the reason for it;
  - (c) with respect to any part of this offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, a report, an opinion or statement of an expert, the person or company proves that they did not have any reasonable grounds to believe and did not believe that: (i) there had been a misrepresentation; or (ii) the relevant part of this offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert; and
  - (d) with respect to any part of this offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or (ii) believed that there had been a misrepresentation;
4. in an action for damages, the person or company will not be liable for all or any part of the damages that it proves do not represent the depreciation in value of the units as a result of the misrepresentation; and
5. in no case will the amount recoverable exceed the price at which the units were offered to the investor under this offering memorandum.

In addition, a person or company is not liable for a misrepresentation in forward-looking information if the person or company proves that:

1. the offering memorandum contains reasonable cautionary language that is proximate to such information identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the person or company has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

### ***Yukon***

If this offering memorandum, together with any amendment to this offering memorandum, contains a misrepresentation, a purchaser resident in the Yukon has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the Fund, the Manager and every person who signed this offering memorandum (if applicable) or, alternatively, while still the owner of the purchased units, a right of rescission against the Fund, provided that:

1. no action may be commenced to enforce a right of action:
  - (a) for rescission more than 180 days after the date of the purchase; or
  - (b) for damages, more than the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase;
2. no person or company will be liable if the person or company proves that the purchaser purchased the units with knowledge of the misrepresentation;
3. no person or company (other than the Fund) will be liable if the person or company proves that (i) the offering memorandum was sent to the purchaser without the person's or company's consent, and that, after becoming aware of it being sent, the person or company promptly gave reasonable notice to the Fund that it was sent without the person's or company's knowledge or consent, (ii) on becoming aware of the misrepresentation, the person or company withdrew their respective consent to the offering memorandum and gave reasonable notice to the Fund of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report, opinion or statement;
4. no person or company (other than the Fund) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation;

5. in an action for damages, the person or company will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the units as a result of the misrepresentation relied upon; and
6. in no case shall the amount recoverable exceed the price at which the units were sold to the purchaser.

In addition, a person or company will not be liable for a misrepresentation in forward-looking information if the person or company proves that:

1. this offering memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

This defence does not however relieve a person or company of liability respecting forward-looking information in a financial statement required to be filed under Yukon securities laws.

### ***Northwest Territories***

If this offering memorandum, together with any amendment to this offering memorandum, contains a misrepresentation, a purchaser resident in the Northwest Territories has, without regard as to whether the purchaser relied on the misrepresentation, a right of action for damages against the Fund, the Manager and every person who signed this offering memorandum (if applicable) or, alternatively, while still the owner of the purchased units, a right of rescission against the Fund, provided that:

1. no action may be commenced to enforce a right of action:
  - (a) for rescission more than 180 days after the date of the purchase; or
  - (b) for damages, more than the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase;
2. no person or company will be liable if the person or company proves that the purchaser purchased the units with knowledge of the misrepresentation;
3. no person or company (other than the Fund) will be liable if the person or company proves that (i) the offering memorandum was sent to the purchaser without the person's or company's consent, and that, after becoming aware of it being sent, the person or company promptly gave reasonable notice to the Fund that it was sent without the person's or company's knowledge or consent, (ii) on becoming aware of the misrepresentation, the person or company withdrew their respective consent to the offering memorandum and gave reasonable notice to the Fund of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did

not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report, opinion or statement;

4. no person or company (other than the Fund) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation;
5. in an action for damages, the person or company will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the units as a result of the misrepresentation relied upon; and
6. in no case shall the amount recoverable exceed the price at which the units were sold to the purchaser.

In addition, a person or company will not be liable for a misrepresentation in forward-looking information if the person or company proves that:

1. this offering memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

This defence does not however relieve a person or company of liability respecting forward-looking information in a financial statement required to be filed under Northwest Territories securities laws.

### ***Nunavut***

If this offering memorandum, together with any amendment to this offering memorandum, contains a misrepresentation, a purchaser resident in Nunavut has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the Fund, the Manager and every person who signed this offering memorandum (if applicable) or, alternatively, while still the owner of the purchased units, a right of rescission against the Fund, provided that:

1. no action may be commenced to enforce a right of action:
  - (a) for rescission more than 180 days after the date of the purchase; or
  - (b) for damages, more than the earlier of (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action, or (ii) three years after the date of the purchase;
2. no person or company will be liable if the person or company proves that the purchaser purchased the units with knowledge of the misrepresentation;

3. no person or company (other than the Fund) will be liable if the person or company proves that (i) the offering memorandum was sent to the purchaser without the person's or company's consent, and that, after becoming aware of it being sent, the person or company promptly gave reasonable notice to the Fund that it was sent without the person's or company's knowledge or consent, (ii) on becoming aware of the misrepresentation, the person or company withdrew their respective consent to the offering memorandum and gave reasonable notice to the Fund of the withdrawal and the reason for it, or (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that they had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum did not fairly represent the expert's report, opinion or statement, or was not a fair copy of, or an extract from, the expert's report, opinion or statement;
4. no person or company (other than the Fund) will be liable with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or (ii) believed that there had been a misrepresentation;
5. in an action for damages, the person or company will not be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the units as a result of the misrepresentation relied upon; and
6. in no case shall the amount recoverable exceed the price at which the units were sold to the purchaser.

In addition, a person or company will not be liable for a misrepresentation in forward-looking information if the person or company proves that:

1. this offering memorandum contains, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
2. the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

This defence does not however relieve a person or company of liability respecting forward-looking information in a financial statement required to be filed under Nunavut securities laws.

### **Contractual Rights of Action**

#### ***Rights for Investors in British Columbia, Alberta or Quebec purchasing as "Accredited Investors"***

Investors resident in British Columbia or Quebec who purchase units as "accredited investors" will be entitled to the same rights of action for damages or rescission as those afforded to residents of British Columbia who purchase units in reliance on the offering memorandum exemption set out in NI 45-106, as described above under *Statutory Rights of Action*.

Investors resident in Alberta who purchase units as “accredited investors” will be entitled to the same rights of action for damages or rescission as those afforded to residents of Alberta who purchase units in reliance on the minimum amount investment exemption set out in NI 45-106, as described above under *Statutory Rights of Action*.

***Rights for Investors in British Columbia or Quebec purchasing under the \$150,000 Exemption***

Investors resident in British Columbia or Quebec who purchase units in reliance on the minimum amount investment prospectus exemption set out in section 2.10 of NI 45-106 will be entitled to the same rights of action for damages or rescission as those afforded to residents of British Columbia who purchase units in reliance on the offering memorandum exemption set out in NI 45-106, as described above under *Statutory Rights of Action*.



## **FINANCIAL STATEMENTS**

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## **Deans Knight Income Fund**

Financial Statements  
**December 31, 2018**



## *Independent Auditor's Report*

To the Unitholders of Deans Knight Income Fund (the Fund)

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### *Our opinion*

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

#### **What we have audited**

The Fund's financial statements comprise:

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

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### *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 report.

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

#### **Independence**

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

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### *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 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.

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*PricewaterhouseCoopers LLP*  
*PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7*  
*T: +1 604 806 7000, F: +1 604 806 7806*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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.

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### *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 these 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 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.



We 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.

**(signed) PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia

March 29, 2019

**Deans Knight Income Fund**  
**Statement of Financial Position**  
**As at December 31, 2018**

	2018	2017
<b>ASSETS</b>		
<b>Current assets</b>		
Investments - at fair value	\$ 158,630,944	\$ 191,622,530
Unrealized gain on forward contracts	—	1,941,513
Cash and cash equivalents	18,747,044	7,296,118
Accrued income receivable	2,382,022	3,249,635
Subscriptions receivable	8,455,027	547,851
	<u>188,215,037</u>	<u>204,657,647</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Unrealized loss on forward contracts	1,747,455	—
Accounts payable and accrued liabilities (note 4)	115,117	136,285
Redemptions and distributions payable	5,211,078	1,799,052
	<u>7,073,650</u>	<u>1,935,337</u>
<b>Net assets attributable to holders of redeemable units</b>	<u>\$ 181,141,387</u>	<u>\$ 202,722,310</u>
<b>Series net assets attributable to holders of redeemable units (note 1)</b>		
Series A	\$ 3,367,473	\$ 3,222,676
Series F	3,190,227	5,389,899
Series K	12,679,649	30,899,508
Series L	45,312,126	26,742,581
Series O	116,591,912	136,467,646
	<u>\$ 181,141,387</u>	<u>\$ 202,722,310</u>
<b>Units outstanding (note 3)</b>		
Series A	370,869.96	330,087.30
Series F	360,338.72	566,624.09
Series K	1,318,524.29	2,988,636.06
Series L	4,710,725.65	2,586,648.25
Series O	18,498,379.65	20,163,956.38
<b>Net assets attributable to holders of redeemable units per unit</b>		
Series A	\$ 9.08	\$ 9.76
Series F	8.85	9.51
Series K	9.62	10.34
Series L	9.62	10.34
Series O	6.30	6.77

On behalf of the Manager,  
Deans Knight Capital Management Ltd./ Gestion de Capital Deans Knight Ltée

(signed) "Wayne Deans"

Director

(signed) "Dillon Cameron"

Director

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

**Deans Knight Income Fund**  
**Statement of Comprehensive (Loss) Income**  
**For the year ended December 31, 2018**

	2018	2017
<b>Income</b>		
Interest income	\$ 13,664,626	\$ 14,201,028
Dividend income (net of withholding tax \$71,223)	252,190	13,813
Net realized gain on investments sold (note 6)	4,644,778	865,213
Net realized (loss) gain on foreign currency contracts (note 6)	(6,104,213)	4,995,370
Change in unrealized depreciation on investments	(8,618,762)	(7,217,476)
Change in unrealized (depreciation) appreciation on foreign currency contracts	(3,688,968)	2,716,803
Net realized foreign exchange gain (loss)	466,544	(506,390)
	<u>616,195</u>	<u>15,068,361</u>
<b>Expenses</b>		
Management/trailer fees (note 4)	797,151	993,714
Trustee fees	98,721	101,465
Audit and accounting fees	73,309	46,143
Other	19,484	7,172
Legal fees	1,124	—
	<u>989,789</u>	<u>1,148,494</u>
<b>(Decrease) increase in net assets attributable to holders of redeemable units</b>	<u>\$ (373,594)</u>	<u>\$ 13,919,867</u>

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

# Deans Knight Income Fund

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

For the year ended December 31, 2018

	Net assets attributable to holders of redeemable units, beginning of year	Proceeds from redeemable units issued	Redemption of redeemable units	Distributions to holders of redeemable units	Reinvestments of distributions to holders of redeemable units	Increase (decrease) in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of year
<b>December 31, 2018</b>							
Series A	\$ 3,222,676	\$ 295,000	\$ (34,294)	\$ (198,203)	\$ 133,843	\$ (51,549)	\$ 3,367,473
Series F	5,389,899	2,224,000	(4,245,908)	(377,289)	210,533	(11,008)	3,190,227
Series K	30,899,508	4,042,161	(21,120,714)	(1,021,511)	157,116	(276,911)	12,679,649
Series L	26,742,581	26,777,935	(6,379,356)	(2,461,532)	1,002,184	(369,686)	45,312,126
Series O	136,467,646	14,825,780	(30,392,479)	(8,927,237)	4,282,642	335,560	116,591,912
	<u>\$ 202,722,310</u>	<u>\$ 48,164,876</u>	<u>\$ (62,172,751)</u>	<u>\$ (12,985,772)</u>	<u>\$ 5,786,318</u>	<u>\$ (373,594)</u>	<u>\$ 181,141,387</u>

	Net assets attributable to holders of redeemable units, beginning of year	Proceeds from redeemable units issued	Redemption of redeemable units	Distributions to holders of redeemable units	Reinvestments of distributions to holders of redeemable units	Increase in net assets attributable to holders of redeemable units	Net assets attributable to holders of redeemable units, end of year
<b>December 31, 2017</b>							
Series A	\$ 3,951,837	\$ 1,056,000	\$ (1,910,986)	\$ (209,500)	\$ 130,392	\$ 204,933	\$ 3,222,676
Series F	4,622,686	3,063,633	(2,452,353)	(320,359)	144,790	331,502	5,389,899
Series K	24,346,133	6,505,090	(5,410)	(1,466,415)	18,293	1,501,817	30,899,508
Series L	39,699,910	6,505,343	(19,600,000)	(2,413,150)	147,485	2,402,993	26,742,581
Series O	145,621,567	9,307,662	(23,344,980)	(9,256,774)	4,661,549	9,478,622	136,467,646
	<u>\$ 218,242,133</u>	<u>\$ 26,437,728</u>	<u>\$ (47,313,729)</u>	<u>\$ (13,666,198)</u>	<u>\$ 5,102,509</u>	<u>\$ 13,919,867</u>	<u>\$ 202,722,310</u>

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



**Deans Knight Income Fund**  
**Statement of Cash Flows**  
**For the year ended December 31, 2018**

	2018	2017
<b>Cash provided by:</b>		
<b>Operating Activities</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	\$ (373,594)	\$ 13,919,867
Adjustments for non-cash items		
Net realized gain on investments sold	(4,644,778)	(865,213)
Net realized loss (gain) on foreign currency contracts	6,104,213	(4,995,370)
Change in unrealized depreciation on investments	8,618,762	7,217,476
Unrealized depreciation (appreciation) on foreign currency contracts	3,688,968	(2,716,803)
Change in non-cash balances		
Change in accrued income receivable	867,613	(459,821)
Change in accounts payable and accrued liabilities	(21,168)	2,737
Proceeds from sale of investments (note 6)	73,218,209	105,005,192
Cost of investments purchased (note 6)	<u>(50,304,820)</u>	<u>(98,543,579)</u>
Cash provided by operating activities	<u>37,153,405</u>	<u>18,564,486</u>
<b>Financing Activities</b>		
Proceeds from issuance of redeemable units	40,257,700	27,112,713
Distributions paid to holders of redeemable units	(7,208,223)	(8,746,093)
Payments on redemption of redeemable units	<u>(58,751,956)</u>	<u>(47,297,567)</u>
Cash used in financing activities	<u>(25,702,479)</u>	<u>(28,930,947)</u>
Increase in cash and cash equivalents during the year	11,450,926	(10,366,461)
<b>Cash and cash equivalents, beginning of year</b>	<u>7,296,118</u>	<u>17,662,579</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 18,747,044</u>	<u>\$ 7,296,118</u>
<b>Supplemental information*</b>		
Interest paid	\$ (3,616)	\$ —
Interest received	14,239,073	13,505,606
Dividends received, net of withholding taxes	282,467	634,095

\*Included as a part of cash flows from operating activities

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

**Deans Knight Income Fund**  
**Schedule of Investment Portfolio**  
**As at December 31, 2018**

Number of shares/units	Investments owned	Average cost \$	Fair value \$	% of net asset value
<b>Canadian equities</b>				
520,000	American Hotel Income REIT LP.	4,513,163	3,296,800	1.8
1,746,898	BuildDirect.com	1,617,461	—	0.0
80,700	PrairieSky Royalty Ltd.	2,323,197	1,425,969	0.8
151,088	Skylink Aviation Inc.	—	—	0.0
		<u>8,453,821</u>	<u>4,722,769</u>	<u>2.6</u>
<b>Canadian fixed income</b>				
747,526	Bear Creek 11.25% 15JUN22	765,188	765,187	0.4
8,800,000	Black Press Group Ltd. 10% 31MAR19	8,756,938	8,712,000	4.8
247,563	Black Press Group Ltd. LBR+5% 31MAR19	245,088	240,137	0.1
11,595,000	Crew Energy Inc. 6.5% 14MAR24	11,214,763	9,681,825	5.3
698,797	Donver Holdings Ltd. 14% 15SEP22	701,366	698,797	0.4
4,587,000	Gibson Energy Inc. 5.25% 15JUL24	4,588,185	4,380,585	2.4
5,380,000	Mattamy Group Corporation 6.5% 01OCT25	5,382,600	5,043,750	2.8
6,600,000	Millar Western Forest Products Ltd. 9.5% 20JUN23	6,600,000	6,484,500	3.6
2,450,000	Parkland Fuel Corporation 5.625% 09MAY25	2,450,000	2,309,125	1.3
3,000,000	Quebecor Media Inc. 6.625% 15JAN23	3,107,188	3,112,500	1.7
5,000,000	Russel Metals Inc. 6% 16MAR26	5,000,000	4,900,000	2.7
880,000	Russel Metals Inc. 6% 19APR22	856,400	849,200	0.5
	Source Energy Services Canada LP / Source Energy Services			
2,500,000	Canada Holdings Ltd. 10.50% 15DEC21	2,665,625	2,462,500	1.4
4,835,000	Tidewater Midstream and Infrastructure Ltd. 6.75% 19DEC22	4,812,597	4,689,950	2.6
3,250,000	Vesta Energy Corp. 8.125% 24JUL23	3,250,000	3,006,250	1.7
825,000	Videotron Ltd. 5.625% 15JUN25	834,281	833,250	0.5
4,350,000	Videotron Ltd. 5.75% 15JAN26	4,394,938	4,393,500	2.4
		<u>65,625,157</u>	<u>62,563,056</u>	<u>34.5</u>
<b>Canadian loans receivable</b>				
4,126,214	BuildDirect.com 12% 22MAR21	4,250,000	1,650,486	0.9
4,761,854	Skylink Aviation Inc. 12.25% 10MAY18*	651,946	—	0.0
		<u>4,901,946</u>	<u>1,650,486</u>	<u>0.9</u>
<b>Canadian convertible debentures</b>				
3,000,000	Niko Resources Ltd. 7% 31DEC25	3,000,000	600	0.0
<b>Canadian warrant</b>				
	Syncordia Technologies and Health Care			
375,000	Solutions Inc. 05NOV19	—	—	0.0
<b>U.S. fixed income</b>				
5,650,000	Baytex Energy Corp. 5.625% 01JUN24	6,853,329	6,667,186	3.7
141,418	Black Press Group Ltd. LBR+5% 31MAR19	171,539	187,135	0.1
1,225,000	Brookfield Residential Properties Inc. 6.375% 15MAY25	1,398,104	1,529,098	0.8
5,000,000	Brookfield Residential Properties Inc. 6.50% 15DEC20	6,642,759	6,803,948	3.8

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

**Deans Knight Income Fund**  
**Schedule of Investment Portfolio**  
**As at December 31, 2018 (continued)**

Number of shares/units	Investments owned	Average cost \$	Fair value \$	% of net asset value
<b>U.S. fixed income (continued)</b>				
1,487,000	Cascades Inc. 5.5% 15JUL22	1,892,291	1,977,851	1.1
5,025,000	Cott Holdings Inc. 5.50% 01APR25	6,225,325	6,478,074	3.6
3,350,000	Delphi Technologies PLC 5% 01OCT25	3,915,688	3,838,859	2.1
3,025,000	Drummond and Smythe Commodities Peru Ltd. 8% 16MAR19	4,004,535	4,126,705	2.3
1,995,000	Garda World Security Corp. 7.25% 15NOV21	2,371,629	2,619,520	1.5
4,830,000	Garda World Security Corp. 7.25% 15NOV21	5,379,919	6,341,995	3.5
8,720,000	Gateway Casinos & Entertainment Ltd. 8.25% 01MAR24	11,582,962	12,044,523	6.7
7,200,000	Spectrum Brands 7.75% 15JAN22	9,236,921	9,994,129	5.5
4,055,000	Imperial Metals Corp. 7% 15MAR19	4,760,437	3,651,008	2.0
375,000	Ivy Funding Eight, LLC. 11% 15FEB19	501,713	511,575	0.3
375,000	Ivy Funding Eight, LLC. 11% 31MAR19	511,575	511,575	0.3
500,000	Ivy Funding Eight, LLC. 13% 28JAN19	653,100	682,100	0.4
375,000	Ivy Funding Eight, LLC. 11% 15JAN19	496,313	511,575	0.3
750,000	Ivy Funding Eight, LLC. 11% 31JAN19	997,575	1,023,150	0.6
2,950,000	Moss Creek Resources Holdings Inc. 7.5% 15JAN26	3,683,870	3,460,975	1.9
7,503,000	Seven Generations Energy Ltd. 6.875% 30JUN23	8,364,665	10,133,237	5.6
4,845,836	Skylink Aviation Inc. 10% 31DEC18	521,011	—	0.0
	Syncordia Technologies and Health Care			
2,925,000	Solutions Inc. 11% 05NOV17*	3,376,800	997,571	0.6
	TMX Finance LLC / TitleMax Finance			
2,500,000	Corp. 11.125% 01APR23	3,229,998	2,753,979	1.5
		<u>86,772,058</u>	<u>86,845,768</u>	<u>47.9</u>
<b>U.S. loans receivable</b>				
6,475,000	Aircraft Finance Trust 0.635% 15MAY24	1,452,650	631,649	0.4
1,258,000	Baer Air Inc. 12% 2FEB20	1,623,266	1,716,164	1.0
1,193,133	Mirabela Nickel Ltd. 9.5% 24JUN19	1,112,703	—	0.0
136,205	Skylink Aviation Inc. 15% 09NOV16*	195,512	92,905	0.1
407,547	Syncordia DIP	407,547	407,547	0.2
		<u>4,791,678</u>	<u>2,848,265</u>	<u>1.6</u>
<b>Total investments owned</b>		173,544,660	158,630,944	87.6
<b>Unrealized loss, foreign exchange forward contracts (schedule 1)</b>			(1,747,455)	(1.0)

\*These securities are in default

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

# Deans Knight Income Fund

## Schedule of Investment Portfolio (continued)

As at December 31, 2018

### Schedule 1 - Foreign Exchange Forward Contracts

Settlement Date	Currency Sold	Currency Bought	Contract Price \$	Fair Value \$	Unrealized Loss \$
January 04, 2019	USD	CAD	(15,180,000)	(15,688,300)	(508,300)
January 04, 2019	USD	CAD	(16,822,350)	(17,393,550)	(571,200)
January 22, 2019	USD	CAD	(20,205,000)	(20,463,000)	(258,000)
January 22, 2019	USD	CAD	(40,174,995)	(40,584,950)	(409,955)
Total unrealized loss on foreign exchange forward contracts				\$	(1,747,455)

# Deans Knight Income Fund

## Notes to Financial Statements

December 31, 2018

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### 1 Organization

Deans Knight Income Fund ("the Fund") is a pooled fund established under the laws of the Province of British Columbia by a trust indenture dated March 30, 1993, and as subsequently amended, between Deans Knight Capital Management Ltd./Gestion de Capital Deans Knight Ltée, ("the Manager"), and RBC Investor Services Trust ("the Trustee"). The Fund commenced operations on April 1, 1993.

Effective December 31, 2012, the trust indenture was amended to create a separate unitholder series. As part of this change, existing units of the Fund were re-named "Series O Units" ("Units"). New series, "Series F Units" and "Series A Units", became available for distribution after December 31, 2012. The trust indenture was subsequently amended as of May 31, 2016. New series, "Series K Units" and "Series L Units", became available for distribution after March 31, 2016. As the Fund's series' units do not have identical features, all units ceased to qualify for equity classification and have therefore been presented as liabilities.

The Fund's principal investments are in income-generating securities.

### 2 Summary of significant accounting policies

The following is a summary of significant accounting policies followed by the Fund:

#### Basis of preparation

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

These financial statements were authorized for issue by the Manager on March 28, 2019.

#### Financial instruments

##### (a) Classification

Effective January 1, 2018, the Fund retrospectively without restatement adopted IFRS 9, *Financial Instruments* ("IFRS 9"). The new standard requires financial assets to be either carried at amortized cost or at fair value with changes in fair value recognized in profit and loss ("FVTPL") or in other comprehensive income ("FVOCI") based on the Fund's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

The Fund manages its investments in financial assets with the objective of realizing cash flows through both the sale of the assets and income generated from those assets. The Portfolio Manager makes decisions based on the assets' fair values and manage the assets to realize those fair values.

# Deans Knight Income Fund

## Notes to Financial Statements

December 31, 2018

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Upon transition to IFRS 9, the Fund's financial assets and financial liabilities previously designated as FVTPL or classified as held for trading under IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") continue to be classified as FVTPL under IFRS 9. There were no changes in the measurement attributes for any of the Fund's financial assets and financial liabilities upon transition to IFRS 9.

The Fund classifies and measure its investments (such as fixed-income securities and equity securities) based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and use that information to assess the assets' performance and to make decisions. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments and derivatives are measured at FVTPL. Derivative contracts that have a negative fair value are presented as liabilities at FVTPL.

The Fund's obligations for net assets attributable to holders of redeemable units are presented at the redemption amount, which approximates their fair value. All other financial assets and liabilities are measured at amortized cost, which approximates their fair value. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the effective rate of interest.

Unlisted or non-exchange traded investments, or investments where a last bid, sale or close price is unavailable, or investments for which market quotations are, in the Fund's opinion, inaccurate, unreliable, or not reflective of all available material information, are valued at their fair value as determined by the Fund using appropriate and accepted industry valuation techniques including valuation models. The fair value determined using valuation models requires the use of inputs and assumptions based on observable market data including volatility and other applicable rates or prices. In certain circumstances, the fair value may be determined using valuation techniques that are not supported by observable market data.

The resulting values for investments not traded in an active market may differ from values that would be determined had a ready market existed, and the difference could be significant.

### *(b) Recognition, de-recognition and measurement*

Regular way purchases and sales of investments are recognized on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities at FVTPL are initially recognized at fair value. Subsequent to initial recognition, all financial assets and financial liabilities at FVTPL are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at FVTPL' category are included in the statement of comprehensive income and loss in the period in which they arise.

# Deans Knight Income Fund

## Notes to Financial Statements

December 31, 2018

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Under the amortized cost method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

The interest for distribution purposes shown on the statement of comprehensive income and loss represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds, which are amortized on a straight-line basis.

Realized gain/loss on sale of investments and unrealized appreciation/depreciation in investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Royalty income is recognized on an accrual basis as earned. Dividend income is recognized at the ex-dividend date.

### *(c) Presentation*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Fund may enter into master netting arrangements or similar agreements that do not meet the criteria for offsetting in the statement of financial position, but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or termination of the contracts. The Fund has not offset any financial assets or liabilities at December 31, 2018 and December 31, 2017.

### **Fair value measurement**

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 values 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 closing market price for both financial assets and financial liabilities. In circumstances where the closing price is not available, management 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.

# Deans Knight Income Fund

## Notes to Financial Statements

December 31, 2018

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The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs. In certain circumstances, the fair value may be determined using valuation techniques that are not supported by observable market data.

The resulting values for investments not traded in an active market may differ from values that would be determined had a ready market existed, and the difference could be significant.

Specifically, financial assets and liabilities that are classified as held for trading are recorded at fair values determined as follows:

### *Foreign currency contracts*

Foreign currency contracts (note 7) entered into by the Fund are valued at an amount that is equal to the gain or loss that would be realized if the position were to be transferred out, which is equivalent to the difference between the deliverable asset and the value of the asset to be received.

### *Warrants*

Warrants are recorded at their estimated fair value using a recognized valuation technique.

Financial assets and liabilities that are designated at FVTPL at inception are recorded at fair values determined as follows:

### *Equities*

Publicly traded equities are recorded at closing prices as quoted on recognized stock exchanges.

The amounts at which the Fund's publicly traded investments could be disposed of currently may differ from the carrying value based on market quotes, as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity.

### *Fixed income investments and convertible debentures*

Fixed income investments traded on a public securities exchange or traded on an over-the-counter market are valued at the closing price. Where no closing price is available, the last sale price is used where, in management's opinion, this provides the best estimate of fair value.

Fixed income investments not traded on a public securities exchange or over-the-counter market are valued by considering data inputs such as the last price the security was traded at, most recent bid/ask information, prices of similar securities with available prices, and comparison of yields of comparable investments.



# Deans Knight Income Fund

## Notes to Financial Statements

December 31, 2018

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### **Cash and cash equivalents**

Cash and cash equivalents are accounted for at amortized cost. They consist of cash and deposits with maturities, at the time of purchase, of three months or less and are held with a Canadian chartered bank.

### **Accrued income and subscriptions receivable**

Accrued interest and dividends receivable and subscriptions receivable are loans and receivables and are accounted for at amortized cost. Due to the immediate and short-term nature, carrying value approximates fair value.

### **Financial liabilities**

Financial liabilities, consisting of accounts payable and accrued liabilities and redemptions and distributions payable, are designated as other financial liabilities and are accounted for at amortized cost. Due to the immediate and short-term nature, the carrying value approximates fair value.

### **Foreign exchange**

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars, which is also the Fund's functional and presentation currency, at the exchange rate applicable on the valuation date. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Foreign currency assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to cash are presented as "Net realized foreign exchange loss" and those relating to other financial assets and liabilities are presented within 'Net realized gain on investments sold' and 'Change in unrealized appreciation (depreciation) on investments' in the statement of comprehensive income and loss.

### **Income taxes**

The Fund's net investment income is allocated and distributed monthly. Realized capital gains, less any realized capital losses (net realized capital gains) are allocated and distributed annually to the unitholders of the Fund, under the terms of the trust indenture. The Fund is not subject to tax as all income and net realized capital gains are allocated to unitholders. As a result, the Fund makes no provision for current or future income taxes in the financial statements.

When calculating amounts to be distributed, expenses are allocated against income in the following order: interest income, foreign income, ineligible dividends, net realized capital gains and eligible dividends.

### **Net-capital losses**

At December 31, 2018, the Fund has accumulated net-capital losses of approximately \$25,500,000 (2017 - \$25,100,000) available for utilization against realized capital gains in future years. These losses are net of the current applicable inclusion rate of 50% and do not expire.

# Deans Knight Income Fund

## Notes to Financial Statements

**December 31, 2018**

### 3 Issue and redemption of units

The Fund is divided into Series A, F, K, L and O Units, and the number of shares in each series that may be issued is unlimited. Series A Units are available to all investors and may be purchased, switched or redeemed through authorized dealers. Series F Units are available to investors who have fee-based accounts with their dealer for investment advice and other services. Series F Units may only be purchased, switched or redeemed through authorized dealers, and not directly through the Manager. Series K, L and O Units are available to investors who have entered into an agreement with the Manager directly. Units may be redeemed at their net asset value ("NAV") per unit on any valuation day. If the Series A or F Units are redeemed or switched within six months of purchase, the unitholder may be charged a short-term trading fee of 5% of the value of the units redeemed.

	Redeemable Units, beginning of year	Redeemable Units Issued	Redemption of Redeemable Units	Reinvestments of Units	Redeemable Units, end of year
<b>December 31, 2018</b>					
Series A	330,087.30	30,494.61	(3,776.76)	14,064.81	370,869.96
Series F	566,624.09	237,138.84	(466,008.64)	22,584.43	360,338.72
Series K	2,988,636.06	398,892.86	(2,084,705.67)	15,701.04	1,318,524.29
Series L	2,586,648.25	2,664,051.88	(639,441.42)	99,466.94	4,710,725.65
Series O	20,163,956.38	2,277,621.74	(4,590,872.97)	647,674.50	18,498,379.65

	Redeemable Units, beginning of year	Redeemable Units Issued	Redemption of Redeemable Units	Reinvestments of Units	Redeemable Units, end of year
<b>December 31, 2017</b>					
Series A	405,154.31	108,164.66	(196,599.96)	13,368.29	330,087.30
Series F	486,408.84	322,294.17	(257,323.98)	15,245.06	566,624.09
Series K	2,356,950.37	630,439.84	(522.24)	1,768.09	2,988,636.06
Series L	3,843,424.77	622,818.83	(1,893,866.19)	14,270.84	2,586,648.25
Series O	21,534,631.08	1,378,870.70	(3,439,608.20)	690,062.80	20,163,956.38

# Deans Knight Income Fund

## Notes to Financial Statements

December 31, 2018

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### 4 Management fee paid to related party

The Manager has entered into contracts for management fees directly with the Series O unitholders of the Fund; therefore, there is no management fee expense related to Series O Units in these financial statements.

The management fee for Series A Units is 1.50% per annum of Series A Net Asset Value, payable monthly and is subject to applicable taxes. The fee is payable to the Manager (note 5). For the year ended December 31, 2018, the management fee paid to the Manager was \$52,978 (2017 - \$31,912). The management fee payable at December 31, 2018 was \$4,497 (2017 - \$2,241).

The management fee for Series F Units is 0.75% per annum of Series F Net Asset Value, payable monthly and is subject to applicable taxes. The fee is payable to the Manager (note 5). For the year ended December 31, 2018, the management fee paid to the Manager was \$46,349 (2017 - \$42,217). The management fee payable at December 31, 2018 was \$2,780 (2017 - \$3,536).

The management fee for Series K Units is 1.50% per annum of Series K Net Asset Value, payable monthly and is subject to applicable taxes. The fee is payable to the Manager (note 5). For the year ended December 31, 2018, the management fee paid to the Manager was \$279,763 (2017 - \$444,583). The management fee payable at December 31, 2018 was \$19,517 (2017 - \$41,368).

The management fee for Series L Units is 1.00% per annum of Series L Net Asset Value, payable monthly and is subject to applicable taxes. The fee is payable to the Manager (note 5). For the year ended December 31, 2018, the management fee paid to the Manager was \$418,062 (2017 - \$444,677). The management fee payable at December 31, 2018 was \$37,198 (2017 - \$23,805).

### 5 Other related party transactions and balances

Related parties collectively:

	December 31, 2018		December 31, 2017	
	Units	\$	Units	\$
<b>Series O</b>				
Own	672,452.78	4,238,335	669,323.72	4,529,916
Purchased	3,379.15	22,500	117,940.18	800,000
Income reinvested	46,594.18	308,614	29,300.45	197,988
Income paid out	-	19,475	-	55,495

Related parties to the Fund include key management of the Manager and those with significant control over the financial and operating decisions, and their dependents. All related party transactions are incurred during the course of operations and are measured at the exchange amount. The re-invested units represent income distributions from the Fund, which have been used to acquire additional units in the Fund.

# Deans Knight Income Fund

## Notes to Financial Statements

December 31, 2018

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### 6 Net realized (loss) gain on investments

The following summarizes the net realized (loss) gain on investments:

	2018 \$	2017 \$
Proceeds from sale of investments	<u>94,799,673</u>	<u>117,373,755</u>
Investments at cost - Beginning of year	197,917,480	198,518,508
Add: Cost of investments purchased during the year	<u>71,886,288</u>	<u>110,912,144</u>
	269,803,768	309,430,652
Less: Investments at cost - End of year	<u>(173,544,660)</u>	<u>(197,917,480)</u>
Cost of investments sold during the year	<u>96,259,108</u>	<u>111,513,172</u>
Net realized (loss) gain on investments	<u>(1,459,435)</u>	<u>5,860,583</u>

Net realized (loss) gain on investments consists of:

	2018 \$	2017 \$
Net realized gain on investments	4,644,778	865,213
Net realized (loss) gain on foreign currency contracts	<u>(6,104,213)</u>	<u>4,995,370</u>
	<u>(1,459,435)</u>	<u>5,860,583</u>

Non-cash transactions	2018 \$	2017 \$
Purchases	21,666,678	11,983,886
Sales	<u>21,581,467</u>	<u>12,368,565</u>

# Deans Knight Income Fund

## Notes to Financial Statements

December 31, 2018

### 7 Financial instruments

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2018:

	Financial instruments at FVTPL	Financial instruments at amortized cost	Total
<b>Assets</b>			
Investments - at fair value	\$ 158,630,944	\$ –	\$ 158,630,944
Cash and cash equivalents	–	18,747,044	18,747,044
Accrued income receivable	–	2,382,022	2,382,022
Subscriptions receivable	–	8,455,027	8,455,027
	\$ 158,630,944	\$ 29,584,093	\$ 188,215,037
<b>Liabilities</b>			
Investments - at fair value	\$ 1,747,455	\$ –	\$ 1,747,455
Accounts payable and accrued liabilities	–	115,117	115,117
Redemptions and distributions payable	–	5,211,078	5,211,078
	\$ 1,747,455	\$ 5,326,195	\$ 7,073,650

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2017:

	Financial instruments at FVTPL	Financial instruments at amortized cost	Total
<b>Assets</b>			
Investments - at fair value	\$ 193,564,043	\$ –	\$ 193,564,043
Cash and cash equivalents	–	7,296,118	7,296,118
Accrued income receivable	–	3,249,635	3,249,635
Subscriptions receivable	–	547,851	547,851
	\$ 193,564,043	\$ 11,093,604	\$ 204,657,647
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ –	\$ 136,285	\$ 136,285
Redemptions payable	–	1,799,052	1,799,052
	\$ –	\$ 1,935,337	\$ 1,935,337

# Deans Knight Income Fund

## Notes to Financial Statements

**December 31, 2018**

### Fair value measurement

Financial instruments are classified in a hierarchy that prioritizes the inputs to fair value measurement. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are:

Level 1 – inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs that reflect other than quoted prices that are observable for the assets or liabilities either directly or indirectly;

Level 3 – inputs that are not based on observable market data.

If inputs of different levels are used to measure an asset's or liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

The following tables illustrate the classification of the Fund's financial instruments within the fair value hierarchy:

#### December 31, 2018

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equities	\$ 4,722,769	\$ –	\$ –	4,722,769
Corporate debt	–	130,868,589	23,038,986	153,907,575
Convertible debentures	–	600	–	600
	\$ 4,722,769	\$ 130,869,189	\$ 23,038,986	\$ 158,630,944
<b>Liabilities</b>				
Foreign currency contracts	\$ –	\$ 1,747,455	\$ –	1,747,455
	\$ –	\$ 1,747,455	\$ –	\$ 1,747,455

#### December 31, 2017

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equities	\$ 9,848,542	\$ –	\$ –	9,848,542
Corporate debt	–	144,091,108	37,664,580	181,755,688
Convertible debentures	–	18,300	–	18,300
Foreign currency contracts	–	1,941,513	–	1,941,513
	\$ 9,848,542	\$ 146,050,921	\$ 37,664,580	\$ 193,564,043

The following tables reconcile the Fund's Level 3 fair value measurements:

#### December 31, 2018

	Total
Beginning Balance, January 01, 2018	\$ 37,664,580
Purchases	24,922,296
Sales	(38,482,132)
Realized losses included in net income	(1,004,463)
Change in unrealized depreciation included in net income	(61,295)
Ending Balance, December 31, 2018	\$ 23,038,986

# Deans Knight Income Fund

## Notes to Financial Statements

December 31, 2018

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### December 31, 2017

	Total
Beginning Balance, January 01, 2017	\$ 33,189,724
Purchases	31,040,191
Sales	(32,517,705)
Net transfers into Level 3	8,690,000
Realized losses included in net income	(2,737,630)
Ending Balance, December 31, 2017	\$ 37,664,580

There were no transfers between levels of the fair value hierarchy in 2018 or 2017. All fair value measurements above are recurring.

Level 3 fair value measurements have predominantly been valued by considering data inputs such as the last price the security was traded at, most recent bid/ask information, prices of similar securities with available prices, and comparison of yields of comparable investments. Any reasonably possible alternative assumptions would result in immaterial changes to total net assets.

### Management of financial risks

In the normal course of business, the Fund is exposed to various financial risks, including credit risk, liquidity risk and market risk (consisting of interest rate risk, currency risk and fair value risk). The Fund's overall risk management program seeks to minimize potentially adverse effects of these risks on the Fund's financial performance by employing a professional, experienced portfolio adviser, monitoring daily the Fund's positions and market events, diversifying the investment portfolio within the constraints of the investment guidelines and periodically using derivatives to hedge certain risk exposures. Further, the Manager monitors the portfolio to ensure compliance with its investment strategy, investment guidelines and securities regulations.

### Fair value risk

The Fund's investments are exposed to market price risk and this risk affects the fair value of the investments. All investments have an inherent risk of loss of capital. The maximum risk resulting from investments is determined by their fair value. The Fund seeks to manage price risks by careful selection of investments prior to making an investment and by regular ongoing monitoring of the investment performance of the individual investee companies. A 10% change in the value of the Fund's equity investments would have a \$472,277 (2017 - \$984,854) impact on net assets.

### 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.

# Deans Knight Income Fund

## Notes to Financial Statements

December 31, 2018

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All transactions executed by the Fund in listed securities are settled/paid for upon delivery using approved brokers. The risk of this settlement not occurring is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. Since the Fund invests in high-yield debt instruments and derivatives, this represents the main concentration of credit risk. The fair value of debt securities includes consideration of the creditworthiness of the debt issuer. The maximum credit exposure of these assets is represented by their carrying amounts. This maximum exposure may be offset to varying degrees in each investment, based on the collateral held, if any. Collateral may include such things as a general security agreement over all assets, or specific security over specific assets. It may also entitle the debt holder to take over the overall business through restructuring of the investment.

The Fund's credit risk exposure by credit ratings on its fixed income and convertible debenture investments is as follows:

Credit rating	As a % of net assets	
	December 31, 2018	December 31, 2017
BB+	2.42	-
BB	18.34	11.0
BB-	4.27	5.9
B+	18.21	8.8
B	10.58	6.0
B-	1.52	8.9
CC+	-	3.3
CC	2.36	0.3
CCC+	17.11	18.9
CCC-	-	5.0
Not rated*	10.15	21.6
	<u>85.0</u>	<u>89.7</u>

\*Unrated debt securities consist primarily of loans receivable.

Credit ratings are obtained from various credit rating agencies and sources. Where one or more ratings are obtained for a security, the lowest rating has been used.

Credit risk associated with the Fund's cash and cash equivalents and foreign currency contracts is not considered significant, as they are held with Tier 1 Canadian financial institutions.



# Deans Knight Income Fund

## Notes to Financial Statements

**December 31, 2018**

The Fund's credit risk exposure by sector on its investments is as follows:

	<b>As a % of net assets</b>	
	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Sector</b>		
Consumer goods	22.8	14.9
Energy	25.8	34.6
Financial services	3.3	10.4
Materials and metals	7.5	11.2
Services	11.3	13.6
Real estate	7.4	3.6
Forestry	3.6	-
Technology	-	1.4
Asset backed securities	1.2	-
Industrial/manufacturing	2.1	-
	<u>85.0</u>	<u>89.7</u>

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

The Fund invests primarily in interest-bearing financial instruments. As such, the Fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

The table below summarizes the Fund's exposure to interest rate risk by term to maturity on its interest-bearing investments:

	<b>Fair value</b>	
	<b>December 31, 2018 \$</b>	<b>December 31, 2017 \$</b>
<b>Maturity</b>		
Less than 1 year	21,654,983	52,493,253
1 – 3 years	21,594,613	19,544,789
3 – 5 years	44,465,580	50,317,298
Greater than 5 years	66,192,999	59,418,648
	<u>153,908,175</u>	<u>181,733,988</u>

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## Notes to Financial Statements

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As at December 31, 2018, if the prevailing interest rates had been raised or lowered by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets could possibly have decreased or increased, respectively, by approximately \$5,048,000 or approximately 2.8% of net assets (2017 - \$5,290,000 or approximately 2.6% of net assets).

### **Liquidity risk**

The Fund is an open-ended fund and is exposed to the liquidity risk associated with redemptions of units. The Manager can require up to 30 days' notice for redemption requests, to allow for an orderly and equitable execution of required trading within the Fund's portfolio. In times of illiquidity the Fund may satisfy redemptions by distributing illiquid holdings to redeeming unitholders.

Investments in fixed income investments may not be able to be liquidated quickly at an amount close to their fair value to respond to specific events such as deterioration in the creditworthiness of any particular issuer. Fixed income investments purchased by the Fund may be subject to resale restrictions such as hold periods. The resulting values for fixed income investments may differ from values that would be realized had a ready market existed.

The Fund actively reviews its investment portfolio, and the fixed income market, to assess liquidity risk on its holdings.

### **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund invests a portion of its assets in securities that are denominated in a currency other than the Canadian dollar, which represents the functional currency of the Fund. Consequently, the Fund is exposed to currency risk as the value of the portfolio securities denominated in currencies other than the Canadian dollar will vary due to changes in foreign currency exchange rates.

The Fund enters into foreign currency contracts with financial institutions to hedge the value of foreign currency denominated investments. The fair value of these contracts is reflected in investments. Gains or losses arising from these contracts offset the gains or losses from translation of the underlying investments. The unrealized gains or losses are reflected in unrealized appreciation/depreciation on foreign currency contracts in the statement of comprehensive income and loss. The potential impact to net assets of a 5% change in foreign currency rates against the Canadian dollar, assuming all other variables remain constant, would be \$4,505,000 (2017 - \$521,000).

## **8 Capital management**

The capital of the Fund is divided into series of units, each having an unlimited authorized amount.

The Fund manages its capital in accordance with the Fund's investment objectives. The Fund's investment objectives are to: (i) maximize the total return for unitholders, consisting of income distributions and capital appreciation; and (ii) provide unitholders with monthly distributions of income earned.

# Deans Knight Income Fund

## Notes to Financial Statements

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### 9 Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

#### *Fair value measurement of derivatives and securities not quoted in an active market*

The Fund holds financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes, as obtained from the pricing sources, may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Fund to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to note 2 for further information about the fair value measurement of the Fund's financial instruments and to note 7 for further information about Level 3 investments.

#### *Classification and measurement of investments and application of the fair value option*

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to manage its portfolio of investments and evaluate performance on a fair value basis and that the portfolio of investments is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The most significant judgments made include assessing and determining the appropriate business model that enables the decision that the Fund's investments are classified as FVTPL under IFRS 9.

### 10 Current and future changes in accounting standards

#### **Current year changes in accounting policies**

The following new accounting standard has been adopted by the Fund for the first time during the financial year beginning January 1, 2018:

At December 31, 2017 and thereafter, a number of standards and interpretations, and amendments thereto, had been issued by the International Accounting Standards Board ("IASB"), which are not effective for these financial statements. Those which are expected to have an effect on the financial statements of the Fund are discussed below:

# Deans Knight Income Fund

## Notes to Financial Statements

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IFRS 9, '*Financial Instruments*', addresses the classification and measurement of financial assets and financial liabilities. The final version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and FVTPL. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at FVTPL with the irrevocable option to recognize changes in fair value with no recycling of gains or loss to the statement of comprehensive income. IFRS 9 requires credit losses to be recognized on a single, forward looking expected loss impairment model basis, rather than using an incurred loss model. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at FVTPL. The standard is effective for accounting periods beginning on or after 1 January 2018. IFRS 9 does not have a material impact on the fund.

IFRS 15, '*Revenue from Contracts with Customers*', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, '*Revenue*', and IAS 11, '*Construction contracts*', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. IFRS 15 does not have a material impact on the fund.

### 11 Accounting policies applied until December 31, 2017

#### Financial instruments

The fund has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continue to be accounted for in accordance with the Fund's previous accounting policy.

##### (a) Classification

The Fund classifies its investments in debt and equity securities, and derivatives, as financial assets or financial liabilities at fair value through profit or loss ("FVTPL"). All other financial assets and liabilities are measured at amortized cost.

The FVTPL category has two sub-categories: financial assets or financial liabilities held for trading; and those designated at FVTPL at inception.

##### (i) Financial assets and liabilities held for trading

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorized as held for trading. The Fund does not classify any derivatives as hedges in a hedging relationship.

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(ii) Financial assets and liabilities designated at FVTPL at inception

Financial assets and financial liabilities designated at FVTPL at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated, on a fair value basis in accordance with the Fund's documented investment strategy. The Fund evaluates the information about these financial assets and liabilities on a fair value basis together with other related financial information.

Unlisted or non-exchange traded investments, or investments where a last bid, sale or close price is unavailable, or investments for which market quotations are, in the Fund's opinion, inaccurate, unreliable, or not reflective of all available material information, are valued at their fair value as determined by the Fund using appropriate and accepted industry valuation techniques including valuation models. The fair value determined using valuation models requires the use of inputs and assumptions based on observable market data including volatility and other applicable rates or prices. In certain circumstances, the fair value may be determined using valuation techniques that are not supported by observable market data.

The resulting values for investments not traded in an active market may differ from values that would be determined had a ready market existed, and the difference could be significant.

## CERTIFICATE

DATED April 30, 2019

This Offering Memorandum does not contain a misrepresentation.

Deans Knight Capital Management Ltd., on behalf of the Deans Knight Income Fund and in its capacity as manager of the Deans Knight Income Fund

*“Wayne Deans”*

*“Kelsey Dunwoodie”*

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Wayne Deans  
Chief Executive Officer

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Kelsey Dunwoodie  
Chief Compliance Officer,  
acting in the capacity of Chief Financial Officer

On behalf of the board of directors of Deans Knight Capital Management Ltd., on behalf of the Deans Knight Income Fund and in its capacity as manager of the Deans Knight Income Fund

*“Dillon Cameron”*

*“Umesh Vallipuram”*

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Dillon Cameron  
Director

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Umesh Vallipuram  
Director