

LORICA CANADIAN FIXED INCOME FUND

(Formerly MARQUEST CANADIAN FIXED INCOME FUND)

ANNUAL REPORT

Year ended December 31, 2018

LORICA | INVESTMENT
COUNSEL INC.



INDEPENDENT AUDITOR'S REPORT

To the unitholders of Lorica Canadian Fixed Income Fund (formerly Marquest Canadian Fixed Income Fund)

Opinion

We have audited the financial statements of Lorica Canadian Fixed Income Fund (formerly Marquest Canadian Fixed Income Fund), (the Fund), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 December 31, 2017, and its financial performance and its cash flows for the then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises Management Report on Fund Performance.

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

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

We obtained the Management Report on Fund Performance prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements

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

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

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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's 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.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 29, 2019
Toronto, Ontario

LORICA CANADIAN FIXED INCOME FUND
(Formerly MARQUEST CANADIAN FIXED INCOME FUND)

ANNUAL AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION (CDN \$)

As at,

	December 31, 2018 (\$)	December 31, 2017 (\$)
Assets		
Current Assets		
Investments at fair value	1,864,037	2,939,775
Cash	4,856	3,569
Accrued interest receivable	15,397	17,137
Prepaid fees	7,332	6,737
	1,891,622	2,967,218
Liabilities		
Current Liabilities		
Management fees payable	233	123
Other payables and accrued expenses	11,709	44
Distribution payable	-	821
	11,942	988
Net assets attributable to holders of redeemable units (Note 4)	1,879,680	2,966,230
Net assets attributable to holders of redeemable units (Note 4)		
Class A	45,951	204,619
Class F	1,833,729	2,761,611
Net assets attributable to holders of redeemable units per unit		
Class A	9.70	10.01
Class F	9.72	9.97

Approved on behalf of Lorica Investment Counsel Inc.

"Gary Morris"

Director

The accompanying notes form an integral part of the financial statements

LORICA CANADIAN FIXED INCOME FUND
(Formerly MARQUEST CANADIAN FIXED INCOME FUND)

ANNUAL AUDITED FINANCIAL STATEMENTS

STATEMENTS OF COMPREHENSIVE INCOME (CDN \$)

For the years ended December 31,

	2018 (\$)	2017 (\$)
Income		
Interest for distribution purposes	73,164	124,654
Securities lending income (Note 6)	312	518
Net realized gain (loss) on sale of investments	(49,220)	(71,955)
Change in net unrealized appreciation (depreciation) on investments	12,061	20,685
Total Income	36,317	73,902
Expenses (Note 5)		
Management fees	18,978	37,689
Interest charges	180	274
Operating fees	39,795	43,820
Audit fees	5,954	9,062
Custodian fees	30,074	33,952
Legal fees	1,987	2,999
Independent review committee fees	536	1,690
Unitholder reporting costs	2,399	1,349
Total Expenses	99,903	130,835
Expenses waived (Note 5)	-	(73,232)
Net Expenses	99,903	57,603
Increase (decrease) in net assets attributable to holders of redeemable units from operations	(63,586)	16,299
Increase (decrease) in net assets attributable to holders of redeemable units from operations per class		
Class A	(5,853)	36
Class F	(57,733)	16,263
Increase (decrease) in net assets attributable to holders of redeemable units from operations per unit		
Class A	(0.35)	0.00
Class F	(0.24)	0.04

The accompanying notes form an integral part of the financial statements

LORICA CANADIAN FIXED INCOME FUND
(Formerly MARQUEST CANADIAN FIXED INCOME FUND)

ANNUAL AUDITED FINANCIAL STATEMENTS

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (CDN \$)

For the years ended December 31,

	2018 (\$)	2017 (\$)	2018 (\$)	2017 (\$)
	Class A		Class F	
Net assets attributable to holders of redeemable units, beginning of year	204,619	310,992	2,761,611	4,732,280
Increase (decrease) increase in net assets attributable to holders of redeemable units from operations	(5,853)	36	(57,733)	16,263
Distributions to holders of redeemable units				
From net investment income	(173)	(1,987)	(6,017)	(65,582)
Redeemable unit transactions (Note 4)				
Proceeds from sale of redeemable units	-	54,825	582,654	1,695,656
Reinvestment of distributions to holders of redeemable units	153	1,127	3,237	37,001
Amounts paid on redemption of redeemable units	(152,795)	(160,374)	(1,450,023)	(3,654,007)
Net redeemable unit transactions	(152,642)	(104,422)	(864,132)	(1,921,350)
Net Increase (decrease) in net assets attributable to holders of redeemable units	(158,668)	(106,373)	(927,882)	(1,970,669)
Net assets attributable to holders of redeemable units, end of year	45,951	204,619	1,833,729	2,761,611
			2018 (\$)	2017 (\$)
			Total	
Net assets attributable to holders of redeemable units, beginning of year			2,966,230	5,043,272
Increase (decrease) increase in net assets attributable to holders of redeemable units from operations			(63,586)	16,299
Distributions to holders of redeemable units				
From net investment income			(6,190)	(67,569)
Redeemable unit transactions (Note 4)				
Proceeds from sale of redeemable units			582,654	1,750,481
Reinvestment of distributions to holders of redeemable units			3,390	38,128
Amounts paid on redemption of redeemable units			(1,602,818)	(3,814,381)
Net redeemable unit transactions			(1,016,774)	(2,025,772)
Net Increase (decrease) in net assets attributable to holders of redeemable units			(1,086,550)	(2,077,042)
Net assets attributable to holders of redeemable units, end of year			1,879,680	2,966,230

The accompanying notes form an integral part of the financial statements

LORICA CANADIAN FIXED INCOME FUND
(Formerly MARQUEST CANADIAN FIXED INCOME FUND)

ANNUAL AUDITED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOW (CDN \$)

For the years ended December 31,

	2018 (\$)	2017 (\$)
Cash flows from (used in) operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units from operations	(63,586)	16,299
Adjustments for:		
Net realized loss (gain) on sale of investments	49,220	71,955
Change in net unrealized depreciation (appreciation) on investments	(12,061)	(20,685)
Purchases of investments	(9,098,008)	(21,534,122)
Proceeds from sale and maturity of investments	10,136,587	23,473,893
Accrued interest receivable	1,740	8,353
Prepaid fees	(595)	(6,737)
Management fees payable	110	(81)
Other payables and accrued expenses	11,665	(26)
Net cash from (used in) operating activities	1,025,072	2,008,849
Cash flows from (used in) financing activities		
Distributions paid to holders of redeemable units, net of reinvested distributions	(3,621)	(50,154)
Proceeds from sale of redeemable units	582,654	1,750,481
Amounts paid on redemption of redeemable units	(1,602,818)	(3,820,299)
Net cash from (used in) financing activities	(1,023,785)	(2,119,972)
Net increase (decrease) in cash	1,287	(111,123)
Cash (bank indebtedness) at beginning of year	3,569	114,692
Cash (bank indebtedness) at end of year	4,856	3,569
Supplementary disclosures on cash flow from operating activities:		
Interest received	74,904	133,007
Interest paid	(180)	(274)

The accompanying notes form an integral part of the financial statements

LORICA CANADIAN FIXED INCOME FUND
(Formerly MARQUEST CANADIAN FIXED INCOME FUND)

AUDITED FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENT PORTFOLIO (CDN \$)

As at December 31, 2018

Par Value		Maturity	Coupon	Average Cost	Fair Value
FIXED INCOME (99.17%)					
Corporate Bonds (82.75%)					
85,000	Bell Canada Inc.	03/10/2022	3.00%	\$ 85,410	\$ 84,279
75,000	Canadian Western Bank	15/12/2022	2.92%	75,000	73,781
120,000	CI Financial Corp.	20/07/2023	3.52%	120,000	119,402
72,000	Enbridge Inc.	10/08/2026	3.00%	71,842	69,584
75,000	Honda Canada Finance Inc.	18/02/2021	2.16%	75,891	73,998
54,000	HSBC Bank of Canada	31/01/2023	2.54%	52,758	52,847
100,000	Loblaw Cos Ltd.	10/06/2024	3.92%	100,000	101,826
25,000	Manufacturers Life Insurance Co.	05/01/2026	2.39%	24,862	24,741
75,000	Manufacturers Life Insurance Co.	22/11/2027	3.18%	77,482	75,247
79,000	Manulife Financial Corp.	20/08/2029	3.05%	78,686	77,056
50,000	National Bank of Canada	30/06/2022	1.96%	50,255	48,515
100,000	Nissan Canada Financial Services Inc.	05/03/2021	2.61%	100,000	98,920
85,000	OMERS Realty Corp.	04/10/2027	3.24%	84,957	85,434
105,000	Saputo Inc.	13/06/2022	1.94%	105,000	100,683
100,000	Sun Life Financial Inc.	23/11/2027	2.75%	99,958	98,405
82,000	Sun Life Financial Inc.	19/09/2028	3.05%	82,066	81,183
125,000	TELUS Corp.	26/01/2021	3.60%	131,862	126,635
40,000	TELUS Corp.	17/01/2025	3.75%	41,140	40,423
120,000	TransCanada Pipelines Ltd.	19/07/2023	3.69%	127,487	122,542
				<u>1,584,656</u>	<u>1,555,501</u>
Provincial Bonds (16.42%)					
60,000	Province of Alberta	01/06/2027	2.55%	58,350	58,694
42,000	Province of Nova Scotia	01/06/2027	2.10%	41,976	39,854
75,000	Province of Ontario	02/06/2023	2.85%	76,070	76,231
134,000	Province of Ontario	02/06/2025	2.60%	133,893	133,757
				<u>310,289</u>	<u>308,536</u>
TOTAL FIXED INCOME				<u>1,894,945</u>	<u>1,864,037</u>
Total cost and fair value of investments (99.17%)				1,894,945	1,864,037
Other Assets Less Liabilities (0.83%)				15,643	15,643
Net assets attributable to holders of redeemable units				<u>\$ 1,910,588</u>	<u>\$ 1,879,680</u>

PORTFOLIO CONCENTRATION (CDN \$)

Portfolio by Category	% of Net Assets Attributable to Holders of Redeemable Units	
	December 31, 2018	December 31, 2017
Corporate Bonds	82.75%	78.01%
Provincial Bonds	16.42%	21.10%
Other Assets Less Liabilities	0.83%	0.89%
Total	<u>100.00%</u>	<u>100.00%</u>

See accompanying notes.

Lorica Canadian Fixed Income Fund

(formerly Marquest Canadian Fixed Income Fund)

Notes to Financial Statements (Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

1. THE FUND

The fund – the Lorica Canadian Fixed Income Fund (formerly the Marquest Canadian Fixed Income Fund) (referred to as the “Fund”) is a trust (“Trust Fund”) established under the laws of Ontario by declarations of trusts as amended and restated from time to time. The Fund’s registered office is 130 Spadina Avenue, Suite 801, Toronto, Ontario M5V 2L4. The Fund invests in Canadian fixed income securities. The Fund manager (“Fund Manager”) is Lorica Investment Counsel Inc. (formerly Marquest Asset Management Inc.). On January 6, 2019, Lorica Investment Counsel Inc. acquired the management of the Fund and assumed the trustee role of the Fund. The Fund’s investment activities are managed by the Fund Manager; administration by SGGG Fund Services Inc. (formerly by RCB Investor Trust Services), and custody is handled by National Bank Independent Network division, National Bank Financial Inc. (formerly RBC Investor Trust Services).

The Fund’s active classes launch dates were as follows:

Name of Fund	Class A	Class F
Lorica Canadian Fixed Income Fund	1-Dec-14	1-Dec-14

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of annual financial statements as published by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

These financial statements were authorized for issue by the Fund Manager on March 29, 2018.

b) Significant accounting judgments, estimates and assumptions

The preparation of these financial statements requires the Fund Manager to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates, which by their nature, are uncertain. Significant estimates include the valuation of investments and significant judgments include classification of redeemable units and designation of investments as fair value through profit and loss. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars (CAD). The Fund’s subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency.

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. Realized and unrealized foreign exchange gains and losses on investments and realized and unrealized foreign exchange gains and losses on currency are included in “Foreign exchange gain (loss) on cash” in the Statements of Comprehensive Income.

Lorica Canadian Fixed Income Fund

(formerly Marquest Canadian Fixed Income Fund)

Notes to Financial Statements (Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Basis of measurement

These financial statements have been prepared on a historical cost basis except for investments, which are measured at fair value in the Statements of Financial Position.

e) Financial instruments

From January 1, 2018, the Fund classifies its investments in debt, equity securities and derivatives as financial assets and financial liabilities at fair value through profit or loss ("FVTPL").

The Fund classifies its investments at FVTPL based on the Fund's business model for managing those financial assets in accordance with the Fund's documented investment strategy. The portfolio of investments is managed and performance is evaluated on a fair value basis and 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 Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

The Fund recognizes financial instruments at fair value upon initial recognition. Transaction costs are expensed in the period incurred. Regular way purchases and sales of financial assets are recognized at their trade date. The Fund's investments have been classified as fair value through profit or loss. The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. All other financial assets and financial liabilities are classified as subsequently measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. A financial asset is classified as subsequently measured at amortized cost only if both of the following criteria are met:

- i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Fund has applied IFRS 9 on a modified retrospective basis and the application of IFRS 9 has not resulted in a restatement of comparative information. Refer to Note 3 for changes in accounting policies including classification and measurement policies of financial assets and financial liabilities as a result of the application of IFRS 9.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The breakdown of the Fund into the three-level hierarchy is provided in note 10 (a).

Financial assets are de-recognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. On de-recognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognized in Statement of Comprehensive Income.

f) Investment transactions

Investment transactions are accounted for on the date the order to buy or sell is executed. Realized gains or losses from investment transactions and unrealized appreciation or depreciation are calculated on an average cost basis.

Lorica Canadian Fixed Income Fund

(formerly Marquest Canadian Fixed Income Fund)

Notes to Financial Statements (Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Cash

Cash in the Statements of Financial Position comprises cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as 'cash'.

h) Redeemable participating units

Redeemable units are redeemable at the unitholder's option and are classified as other financial liabilities. They are measured at the redeemable amount.

Net asset value per unit of each class is calculated daily (unless such day is not a business day, in which case the last business day prior to such day is used) (each a "valuation day") by dividing the net asset value of each class by the outstanding units of that class. The net asset value of each class is computed by calculating the fair value of the assets less liabilities of the class.

i) Valuation of Fund units

The value at which units are issued or redeemed is the Net Asset Value per unit. Net asset value per unit for each class is calculated at the end of each day on which the Fund's Manager is open for business ("valuation day") by dividing the net asset value ("Transactional NAV") of each class by its outstanding units. The net asset value of each class is computed by calculating the value of the class' proportionate share of a fund's assets less the class' proportionate of the fund's common liabilities and less class-specific liabilities. Expenses directly attributable to a class are charged to that class while common fund expenses are allocated to each class in a reasonable manner as determined by the Manager. Other income and realized and unrealized gains and losses are allocated to each class of a fund based on that class' pro-rata share of total net asset value of that fund. Amounts received on the issuance of units and amounts paid on the redemption of units are included on the Statements of in Financial Position.

j) Increase (decrease) in net assets attributable to holders of redeemable units per unit

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

k) Investment income recognition

Interest for distribution purposes

Interest for distribution purposes as disclosed in the Statements of Comprehensive Income on debt securities at fair value through profit or loss is recognized on accrual basis and represents the coupon interest received 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.

Distributions from investment trust

Distributions from income trusts, mutual funds and REIT's are recognized on the ex-distribution date and are recorded as income, capital gains or a return of capital, based on best information available to the Fund Manager. Distributions from investment trusts that are treated as a return of capital for income tax purposes reduce the average cost of the underlying investment.

Realized and unrealized gains and losses

Realized gains and losses on investments, and unrealized appreciation and depreciation on investments, are calculated on an average cost basis.

Lorica Canadian Fixed Income Fund

(formerly Marquest Canadian Fixed Income Fund)

Notes to Financial Statements (Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Provisions

A provision is recognized if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefits will be required to settle the obligation.

m) Valuation of investments

i) Securities listed upon a recognized public stock exchange are valued at their close prices on the valuation date. In circumstances where the close price is not within the bid-ask spread, the Fund Manager will determine the point within the bid-ask spread that is most representative of fair value.

ii) Securities not listed upon a recognized public stock exchange, or securities for which a close price, last sale or closing price are unavailable or securities for which market quotations are, in the Fund Manager's opinion, inaccurate, unreliable or not reflective of all available material information, are valued at their estimated fair value, determined by using appropriate and accepted industry valuation techniques including valuation models. The estimated fair value of a security 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 limited circumstances, the estimated fair value of a security may be determined using valuation techniques that are not supported by observable market data.

iii) Short-term notes, treasury bills and bonds are valued at the average close quotations from recognized investment dealers.

n) Distributions to unitholders

Distributions are made/calculated by the Fund on the business day immediately following record date.

o) Transaction costs

Transaction costs are expensed and are included in "transaction costs" in the Statements of Comprehensive Income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers, and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

3. CHANGE IN ACCOUNTING POLICY

Reclassifications of financial instruments on application of IFRS 9

On the date of initial application of IFRS 9, January 1, 2018, the financial instruments of the Fund were as follows, with any reclassifications from December 31, 2017 noted:

Financial instruments	Classification category		Measurement category		Carrying amount at January 1, 2018		
	Original (IAS 39)	New (IFRS)	Original (IAS 39)	New (IFRS)	Original (IAS 39)	New (IFRS)	Difference
Assets							
Investments at fair value	FVTPL	FVTPL	FVTPL	FVTPL	\$ 2,939,775	\$ 2,939,775	\$ -
Cash	FVTPL	Amortized cost	FVTPL	Amortized cost	3,569	3,569	-
Accrued interest receivable	Loans and receivables	Amortized cost	Amortized cost	Amortized cost	17,137	17,137	-
Liabilities							
Management fees payable	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost	123	123	-
Other payables and accrued expenses	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost	44	44	-
Distribution payable	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost	821	821	-

Lorica Canadian Fixed Income Fund

(formerly Marquest Canadian Fixed Income Fund)

Notes to Financial Statements (Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

4. REDEEMABLE PARTICIPATING UNITS

The Fund is authorized to issue an unlimited number of units as follows:

Name of Fund	Unit Types Available
Lorica Canadian Fixed Income	A, F

During the years ended, December 31, 2018 and 2017 the following units were issued (including units issued on transfers from other classes) and redeemed (including transfers to other classes):

December 31, 2018	Outstanding, Beginning of Year	Units Issued	Units Reinvested	Units Redeemed	Outstanding, End of Year
Lorica Canadian Fixed Income Fund					
Class A	20,445	-	15	(15,720)	4,740
Class F	277,108	59,307	327	(148,076)	188,666

December 31, 2017	Outstanding, Beginning of Year	Units Issued	Units Reinvested	Units Redeemed	Outstanding, End of Year
Lorica Canadian Fixed Income Fund					
Class A	30,829	5,427	111	(15,922)	20,445
Class F	470,450	168,055	3671	(365,068)	277,108

5. EXPENSES AND RELATED PARTY TRANSACTIONS

The following summarizes the annual management fee for the Fund:

Lorica Canadian Fixed Income Fund	Class A	1.40%	per annum on average net asset value
	Class F	0.65%	per annum on average net asset value

As the Fund Manager of the Fund and Trustee of the Trust Fund, the Fund is dependent on Lorica Investment Counsel Inc. for administration and management of all matters relating to their operations.

The Fund Manager has, at its discretion, agreed to waive certain expenses associated with the Fund. The waived amounts are shown in the Statements of Comprehensive Income as expenses waived.

The Fund Manager, its officers and directors invest in units of the Fund from time to time in the normal course of business. All transactions with the Manager are measured at the exchange amounts and occur within the normal course of business.

Included in the Fund's expenses in the Statements of Comprehensive Income, is the corresponding component of sales tax. The Harmonized Sales Tax (HST) combines the GST rate of 5% with the provincial sales tax of certain provinces. Each Fund's HST rate is calculated using the proportionate investment holding by unitholder's provincial residency as at September 30 of the prior year. HST rate are determined for expenses attributable to a Fund's individual class, were applicable.

From time to time, the Manager may earn fees and commissions on securities transactions in which the Fund participates. The fees and commissions are based on standard agreements at market prices. For the year ended December 31, 2018, approximately \$546 (2017 - \$nil) was received by the Manager in related fees and commissions under the standing instructions given by the Independent Review Committee (IRC).

In accordance with National Instrument 81-107, Independent Review Committee for Investment Funds, the Fund Manager has established an IRC for the Fund. The mandate of the IRC is to consider and provide recommendations to the Manager on conflicts of interest to which the Manager is subject when managing the Fund. The IRC reports annually to unitholders of the Fund on its activities, and the annual report is available on or after December 31 in each year. The Manager charges compensation paid to the IRC members and the costs of the ongoing administration of the IRC to the Fund. These amounts are recorded in the Statements of Comprehensive Income.

Lorica Canadian Fixed Income Fund

(formerly Marquest Canadian Fixed Income Fund)

Notes to Financial Statements (Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

6. SECURITIES LENDING TRANSACTIONS

The Fund had entered into a securities lending program with its former custodian, RBC Investor and Treasury Services. The aggregate fair value of all securities loaned by the Fund could not exceed 50% of the assets of the Fund. The Fund received collateral of at least 102% of the value of the securities on loan. Collateral held was generally comprised of cash and securities of, or guaranteed by, the Government of Canada or a province thereof.

The aggregate fair value of securities loaned and collateral held under securities lending transactions at December 31, 2018 and 2017 are as follows:

	Outstanding loans	Collateral amount	Collateral as percentage of securities loaned
December 31, 2018	\$	\$	%
Lorica Canadian Fixed Income Fund	379,286	398,252	105

	Outstanding loans	Collateral amount	Collateral as percentage of securities loaned
December 31, 2017	\$	\$	%
Lorica Canadian Fixed Income Fund	477,803	501,695	105

Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian, RBC Investor Services Trust, is entitled to receive.

	Gross securities lending income	Securities lending charge		Net securities lending income	Withholding taxes	Net income received
December 31, 2018	\$	\$	%	\$	\$	\$
Lorica Canadian Fixed Income Fund	480	168	35	312	-	312

	Gross securities lending income	Securities lending charge		Net securities lending income	Withholding taxes	Net income received
December 31, 2017	\$	\$	%	\$	\$	\$
Lorica Canadian Fixed Income Fund	797	279	35	518	-	518

7. TAXATION AND DISTRIBUTION

Taxation of Unit Trusts

The Canadian Fixed Income Fund did not qualify as a mutual fund trust at its taxation year end of December 31, 2018. A unit trust is not subject to tax on that portion of its income, including net realized capital gains for its taxation year that is paid or payable to their unitholders. However, such part of each of the unit trust's taxable income and net realized capital gains that is not so paid or payable will be taxable in the Fund. It is the intention of the Fund to pay all net taxable income and sufficient net taxable gains so that the unit trust will not be subject to income taxes. The unit trust may be subject to alternative minimum tax.

As of December 31, 2018, the Fund has net capital losses of \$35,918.

Lorica Canadian Fixed Income Fund

(formerly Marquest Canadian Fixed Income Fund)

Notes to Financial Statements (Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

8. RECONCILIATION OF NET ASSET VALUE

In accordance with Canadian securities regulations, a reconciliation between the net asset value and the net assets of an investment fund is required for financial reporting periods.

For investments that are traded in an active market where quoted prices are readily and regularly available, IFRS 13, Fair Value Measurements requires that for an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy, rather than the use of closing sale prices currently used for the purpose of determining net asset value. The Fund uses last traded close price unless the close price falls outside the bid-ask spread. As at December 31, 2018 and 2017, there were no differences between the net asset value per unit and the net asset per unit of the fund.

9. CAPITAL MANAGEMENT DISCLOSURES

Units issued and outstanding represent the capital of the Fund. The Fund has no restrictions or specific capital requirements and is authorized to issue an unlimited number of redeemable, transferable units of each class available, as specified in the Fund's Simplified Prospectus. Restrictions and specific requirements on capital for each fund class are only applicable for minimum subscriptions as outlined in the Simplified Prospectus. The Statements of Changes in Financial Position and note 3 outline the relevant changes in the Fund's units for the period. In accordance with the Fund's investment objectives, portfolio management of the Fund's capital will encompass appropriate investing of subscriptions and the maintenance of sufficient liquidity levels for capital redemptions

10. FINANCIAL INSTRUMENTS

(a) Fair Value

Financial instruments of the Fund include investments at fair value, cash, accrued interest receivable, management fees payable, other payables and accrued expenses and distributions payable. There are no significant differences between the carrying values of these financial instruments and their fair values due to their short-term nature except for investments. Investments are carried at their fair values as described in note 2.

The following tables present the Fund's financial instruments measured at fair value classified by the fair value hierarchy set out in IFRS 13 Fair Value Measurement as of December 31, 2018 and 2017:

December 31, 2018	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
Investments	-	1,864,037	-	1,864,037

December 31, 2017	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
Investments	-	3,939,775	-	3,939,775

Fair values are classified as Level 1 when the related securities are actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair values requires the use of significant unobservable inputs, in which case it is classified as Level 3.

During the years ended December 31, 2018 and 2017, no financial instruments were transferred between Level 1 and Level 2 or any financial instruments transferred to Level 3.

Lorica Canadian Fixed Income Fund

(formerly Marquest Canadian Fixed Income Fund)

Notes to Financial Statements (Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

10. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk Management and Disclosures

The Fund's investment activities expose it to a variety of financial risks. The Investment Portfolios present the securities held by the Fund as at December 31, 2017, and groups the securities by asset type, geographic region and/or market segment. Significant risks that are relevant to the Fund are discussed below. The sensitivity analyses shown in the notes below may differ from actual trading, and the differences could be material.

The Fund Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisers, daily monitoring of the Fund's positions and market events; by diversifying the investment portfolios within the constraints of the investment objectives. To assist in managing risks, the Fund Manager also uses internal guidelines that identify the target exposure for each type of risk, maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategies and securities regulations.

(i) Market Risk

Interest rate risk

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

The Fund invests in fixed income securities which bears interest at fixed rates of interest, and as such, is subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates. The tables below summarize the Fund's exposure to interest rate price risk by remaining term to maturity as at December 31, 2018 and 2017. The tables also illustrate the potential impact to the Fund's net asset value, as a result of a 100 basis point % change in the interest rate, assuming a parallel shift in the yield curve with all other variables held constant.

	Less than 1 year \$	1-5 years \$	6-10 years \$	>10 years \$	Total \$	Potential Impact on Net Assets attributable to holders of redeemable units \$
December 31, 2018						
Lorica Canadian Fixed Income Fund	-	977,832	809,149	77,056	1,864,037	95,100

	Less than 1 year \$	1-5 years \$	6-10 years \$	>10 years \$	Total \$	Potential Impact on Net Assets attributable to holders of redeemable units \$
December 31, 2017						
Lorica Canadian Fixed Income Fund	100,859	1,573,440	1,191,046	74,430	2,939,775	154,044

(ii) Liquidity Risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund may invest in securities, which are not actively traded. Such investments include those that are identified as "subject to temporary trading restrictions" in the Schedule of Investment Portfolio. There can be no assurance that an active trading market for these securities will exist at all times, or that the prices at which these securities trade accurately reflect their values. Additionally, for net asset value purposes, in accordance with securities regulation, the Fund must maintain at least 85% of their assets in liquid investments (i.e. investments that are traded in an active market and can readily be disposed of).

In addition, the Fund has financial liabilities outstanding including management fees, other payables and accrued liabilities, distributions payable and redeemable units. These financial liabilities are all current and due within 30 days. Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that all units will be redeemed immediately as holders of these instruments typically retain them for a longer period.

Lorica Canadian Fixed Income Fund

(formerly Marquest Canadian Fixed Income Fund)

Notes to Financial Statements (Expressed in Canadian Dollars)

For the years ended December 31, 2018 and 2017

10. FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Liquidity Risk (continued)

Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed of. On a weekly basis, quantitative monitoring measures are used to screen the Fund's portfolio for securities that may be considered for potential reclassification as illiquid. In addition, the Fund aims to retain sufficient cash to maintain liquidity. Accordingly, the Fund's liquidity risk is considered minimal.

(iii) Credit Risk

The Fund may invest in fixed income securities are subject to credit risk. This means that the value of these securities depends, in part, upon the ability of borrowers to pay all amounts owed to their lenders. Fixed income securities issued by borrowers with a high credit rating are considered to be less risky and therefore are generally worth more than securities issued by borrowers with a low credit rating.

The Fund limits its exposure to credit loss by placing its cash and short-term investments with high credit quality institutions. To maximize the credit quality of its investments, the Fund Manager performs ongoing credit evaluations based upon factors surrounding the credit risk of customers, historical trends and other information. The carrying amounts of other assets (excluding refundable taxes receivable) also represent the maximum credit risk exposure as they will be settled in the short-term.

The maximum exposure to any one debt issuer as of December 31, 2018 was the Province of Ontario representing 5.45% of the net assets (2017 – Province of Ontario representing 11.3% of the net assets) of the Fund.

The Fund invests in debt instruments, which have an investment grade as rated primarily by DBRS and Standard & Poor's.

Ratings for securities that subject the Fund to significant credit risk at December 31, 2018 and 2017 are noted below.

December 31, 2018	AAA \$	AA \$	A \$	BBB \$	BB \$	B \$	CCC \$	Unrated \$	Total \$
Lorica Canadian Fixed Income Fund	-	226,649	972,697	664,691	-	-	-	-	1,864,037

December 31, 2017	AAA \$	AA \$	A \$	BBB \$	BB \$	B \$	CCC \$	Unrated \$	Total \$
Lorica Canadian Fixed Income Fund	-	557,974	1,507,658	874,143	-	-	-	-	3,939,775

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default 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.

The Fund may engage in securities lending transactions with counter parties, whereby the Fund temporarily exchange securities for collateral with a commitment by the counterparty to deliver the same securities on a future date. Refer to note 6.

(iv) Concentration Risk

Portfolio concentration risk is the risk of loss in the total value of the portfolio investments of the Fund due to an over-concentration of investments in a particular instrument, sector or country. A summary of the portfolio's concentration risk by industry sector as at December 31, 2018 is shown in Fund's Schedule of Investment Portfolio.

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