

LORICA CANADIAN FIXED INCOME FUND

ANNUAL REPORT

Years ended December 31, 2019 and 2018

LORICA | INVESTMENT
COUNSEL INC.



INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Lorica Canadian Fixed Income Fund

Opinion

We have audited the financial statements of Lorica Canadian Fixed Income Fund, (the "Fund"), which comprise the statements of financial position as at December 31, 2019 and 2018 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, 2019 and 2018, and financial performance and its cash flows for the years 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 we 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 when it becomes available 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 discussion and analysis 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 and Those Charged with Governance for the Financial Statements

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

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

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

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.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 27, 2020
Toronto, Ontario

Lorica Canadian Fixed Income Fund

Statements of Financial Position (CDN \$)

As at,

| | December 31, 2019 | December 31, 2018 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Investments at fair value (Note 9) | \$ 1,879,491 | \$ 1,864,037 |
| Cash | 8,408 | 4,856 |
| Accrued interest receivable | 12,410 | 15,397 |
| Prepaid fees | – | 7,332 |
| Expense reimbursement receivable (Note 4) | 151,593 | – |
| Other receivables | 3,347 | – |
| | <u>2,055,249</u> | <u>1,891,622</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Management fees payable | 11,699 | 233 |
| Other payables and accrued expenses | 151,701 | 11,709 |
| Distributions payable | 1,113 | – |
| | <u>164,513</u> | <u>11,942</u> |
| Net Assets Attributable to Holders of Redeemable Units | <u>\$ 1,890,736</u> | <u>\$ 1,879,680</u> |
| Net Assets Attributable to Holders of Redeemable Units per Class | | |
| Class A | \$ 48,948 | \$ 45,951 |
| Class F | <u>1,841,788</u> | <u>1,833,729</u> |
| | <u>\$ 1,890,736</u> | <u>\$ 1,879,680</u> |
| Number of Redeemable Units Outstanding (Note 3) | | |
| Class A | 4,767 | 4,740 |
| Class F | 177,919 | 188,666 |
| Net Assets Attributable to Holders of Redeemable Units per Unit | | |
| Class A | \$ 10.27 | \$ 9.70 |
| Class F | 10.35 | 9.72 |

Approved on behalf of Lorica Investment Counsel Inc.

"Gary Morris"

Director

Lorica Canadian Fixed Income Fund

Statements of Comprehensive Income (CDN \$)

For the years ended December 31,

| | 2019 | 2018 |
|--|-------------------|--------------------|
| Income | | |
| Interest for distribution purposes | \$ 56,724 | \$ 73,164 |
| Securities lending income (Note 5) | 16 | 312 |
| Net realized gain (loss) on sale of investments | 54,776 | (49,220) |
| Change in unrealized appreciation in value of investments | 58,966 | 12,061 |
| | <u>170,482</u> | <u>36,317</u> |
| Expenses | | |
| Operating fees | 92,019 | 39,795 |
| Unitholder reporting costs | 29,281 | 2,399 |
| Independent review committee fees | 18,720 | 536 |
| Management fees | 12,209 | 18,978 |
| Legal fees | 8,531 | 1,987 |
| Custodian fees | 7,614 | 30,074 |
| Interest charges | 5,343 | 180 |
| Audit fees | 2,073 | 5,954 |
| Expenses waived (Note 4) | (156,343) | – |
| | <u>19,447</u> | <u>99,903</u> |
| Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units | <u>\$ 151,035</u> | <u>\$ (63,586)</u> |
| Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class | | |
| Class A | \$ 3,499 | \$ (5,853) |
| Class F | 147,536 | (57,733) |
| | <u>\$ 151,035</u> | <u>\$ (63,586)</u> |
| Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit | | |
| Class A | \$ 0.74 | \$ (0.35) |
| Class F | 0.80 | (0.24) |

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

Lorica Canadian Fixed Income Fund

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (CDN \$) For the years ended December 31,

| | 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 | Reinvestment 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 |
|--------------------------|---|---------------------------------------|--------------------------------|--|--|--|---|
| December 31, 2019 | | | | | | | |
| Class A | \$ 45,951 | \$ – | \$ – | \$ (778) | \$ 276 | \$ 3,499 | \$ 48,948 |
| Class F | 1,833,729 | 75,820 | (206,045) | (29,616) | 20,364 | 147,536 | 1,841,788 |
| | <u>\$ 1,879,680</u> | <u>\$ 75,820</u> | <u>\$ (206,045)</u> | <u>\$ (30,394)</u> | <u>\$ 20,640</u> | <u>\$ 151,035</u> | <u>\$ 1,890,736</u> |

| | Net assets attributable to holders of redeemable units, beginning of period | Proceeds from redeemable units issued | Redemption of redeemable units | Distributions to holders of redeemable units | Reinvestment of distributions to holders of redeemable units | Decrease in net assets from operations attributable to holders of redeemable units | Net Assets attributable to holders of redeemable units, end of period |
|--------------------------|---|---------------------------------------|--------------------------------|--|--|--|---|
| December 31, 2018 | | | | | | | |
| Class A | \$ 204,619 | \$ – | \$ (152,795) | \$ (173) | \$ 153 | \$ (5,853) | \$ 45,951 |
| Class F | 2,761,611 | 582,654 | (1,450,023) | (6,017) | 3,237 | (57,733) | 1,833,729 |
| | <u>\$ 2,966,230</u> | <u>\$ 582,654</u> | <u>\$ (1,602,818)</u> | <u>\$ (6,190)</u> | <u>\$ 3,390</u> | <u>\$ (63,586)</u> | <u>\$ 1,879,680</u> |

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

Lorica Canadian Fixed Income Fund

Statements of Cash Flows (CDN \$)

For the years ended December 31,

| | 2019 | 2018 |
|---|------------------|--------------------|
| Cash provided by (used in): | | |
| Operating Activities | | |
| Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units | \$ 151,035 | \$ (63,586) |
| Adjustments for non-cash items | | |
| Net realized (gain) loss on sale of investments | (54,776) | 49,220 |
| Change in unrealized appreciation in value of investments | (58,966) | (12,061) |
| Change in non-cash balances | | |
| Accrued interest receivable | 2,987 | 1,740 |
| Prepaid fees | 7,332 | (595) |
| Expense reimbursement receivable | (151,593) | - |
| Other receivables | (3,347) | - |
| Management fees payable | 11,466 | 110 |
| Other payables and accrued expenses | 139,992 | 11,665 |
| Proceeds from sale of investments | 14,272,557 | 10,136,587 |
| Purchase of investments | (14,174,269) | (9,098,008) |
| Cash provided by operating activities | <u>142,418</u> | <u>1,025,072</u> |
| Financing Activities | | |
| Proceeds from sale of redeemable units | 75,820 | 582,654 |
| Amounts paid on redemption of redeemable units | (206,045) | (1,602,818) |
| Distributions to holders of redeemable units, net of reinvested distributions | (8,641) | (3,621) |
| Cash used in financing activities | <u>(138,866)</u> | <u>(1,023,785)</u> |
| Increase in cash during the year | 3,552 | 1,287 |
| Cash, beginning of year | 4,856 | 3,569 |
| Cash, end of year | <u>\$ 8,408</u> | <u>\$ 4,856</u> |
| Supplemental information* | | |
| Interest paid | \$ 1,011 | \$ 180 |
| Interest received | 58,476 | 74,904 |

*Included as a part of cash flows from operating activities

Lorica Canadian Fixed Income Fund

Schedule of Investment Portfolio (CDN \$)

As at December 31, 2019

| Number of shares/units | Investments owned | Average cost | Fair value | % of net asset value |
|--------------------------------------|---|---------------------|---------------------|----------------------|
| Canadian fixed income (99.4%) | | | | |
| Corporate Bonds (65.4%) | | | | |
| 85,000 | Bell Canada 3% 03OCT22 | \$ 85,410 | \$ 86,563 | 4.58 |
| 75,000 | Bell Canada Inc. 2.75% 29JAN25 | 74,846 | 75,307 | 3.98 |
| 50,000 | Canadian Imperial Bank of Commerce 2.35% 28AUG24 | 49,825 | 49,666 | 2.63 |
| 75,000 | Canadian Western Bank 2.924% 15DEC22 | 75,000 | 75,952 | 4.02 |
| 90,000 | Federation des Caisses Desjardins du Quebec 2.417% 04OCT24 | 90,000 | 89,599 | 4.74 |
| 30,000 | Great-West Lifeco Inc. 3.337% 28FEB28 | 32,160 | 31,705 | 1.68 |
| 79,000 | HSBC Bank Canada 2.542% 31JAN23 | 78,126 | 79,450 | 4.20 |
| 20,000 | Manulife Bank of Canada 2.378% 19NOV24 | 20,000 | 19,973 | 1.06 |
| 54,000 | Manulife Financial Corp. 3.049% 20AUG29 | 53,786 | 55,015 | 2.91 |
| 100,000 | Nissan Canada Financial Services Inc. 2.606% 05MAR21 | 100,000 | 100,211 | 5.30 |
| 80,000 | Sun Life Financial Inc. 2.75% 23NOV27 | 79,966 | 80,782 | 4.27 |
| 82,000 | Sun Life Financial Inc. 3.05% 19SEP28 | 82,066 | 83,644 | 4.42 |
| 100,000 | TELUS Corp. 3.15% 19FEB30 | 99,649 | 99,700 | 5.27 |
| 80,000 | TELUS Corp. 3.60% 26JAN21 | 84,392 | 81,220 | 4.30 |
| 75,000 | The Manufacturers Life Insurance Co. 3.181% 22NOV27 | 77,482 | 76,721 | 4.06 |
| 100,000 | TransCanada PipeLines Ltd. 3.69% 19JUL23 | 106,239 | 104,213 | 5.51 |
| 43,000 | TransCanada PipeLines Ltd. 4.55% 15NOV41 | 44,849 | 47,716 | 2.52 |
| | | <u>1,233,796</u> | <u>1,237,437</u> | <u>65.45</u> |
| Provincial Bonds (34.0%) | | | | |
| 68,000 | Province of Alberta Canada 2.55% 01JUN27 | 66,542 | 69,124 | 3.66 |
| 60,000 | Province of Alberta Canada 2.90% 20SEP29 | 62,790 | 62,616 | 3.31 |
| 46,000 | Province of Alberta Canada 4.50% 01DEC40 | 56,069 | 59,616 | 3.15 |
| 50,000 | Province of Manitoba Canada 4.10% 05MAR41 | 56,925 | 61,636 | 3.26 |
| 42,000 | Province of Nova Scotia Canada 2.10% 01JUN27 | 41,976 | 41,535 | 2.20 |
| 100,000 | Province of Ontario Canada 2.70% 02JUN29 | 103,620 | 103,354 | 5.47 |
| 125,000 | Province of Ontario Canada 4.60% 02JUN39 | 154,400 | 164,216 | 8.69 |
| 60,000 | Province of Saskatchewan Canada 4.75% 01JUN40 | 75,317 | 79,957 | 4.23 |
| | | <u>617,639</u> | <u>642,054</u> | <u>33.97</u> |
| | Total investments owned (99.4%) | 1,851,435 | 1,879,491 | 99.42 |
| | Net investments owned | <u>\$ 1,851,435</u> | 1,879,491 | 99.42 |
| | Other assets, net (0.06%) | | <u>11,245</u> | <u>0.58</u> |
| | Net Assets Attributable to Holders of Redeemable Units | | <u>\$ 1,890,736</u> | <u>100.00</u> |

Lorica Canadian Fixed Income Fund

Notes to Financial Statements (Expressed in Canadian Dollars)

For the year ended December 31, 2019 and 2018

1. THE FUND

The fund – the Lorica 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 annual financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”).

These annual financial statements were authorized for issue by the Manager on March 27, 2020.

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 year. 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.

Lorica Canadian Fixed Income Fund

Notes to Financial Statements (Expressed in Canadian Dollars)

For the year ended December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Basis of measurement

These annual 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

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"), as per IFRS 9, Financial Instruments ("IFRS 9").

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 year 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.

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 9 (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 Statements of Comprehensive Income.

Lorica Canadian Fixed Income Fund

Notes to Financial Statements (Expressed in Canadian Dollars)

For the year ended December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 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.

Lorica Canadian Fixed Income Fund

Notes to Financial Statements (Expressed in Canadian Dollars)

For the year ended December 31, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Distribution 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.

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 that are actively traded and whose price is readily available from the pricing service used by the fund administrator 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 that are not actively traded, 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.

Lorica Canadian Fixed Income Fund

Notes to Financial Statements (Expressed in Canadian Dollars)

For the year ended December 31, 2019 and 2018

3. 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 year ended, December 31, 2019 and 2018 the following units were issued and redeemed:

| | Redeemable Units, beginning of year | Redeemable Units Issued | Redemption of Redeemable Units | Reinvestments of Units | Redeemable Units, end of year |
|--------------------------|--|------------------------------------|---|-----------------------------------|--|
| December 31, 2019 | | | | | |
| Class A | 4,740 | – | – | 27 | 4,767 |
| Class F | 188,666 | 7,439 | (20,177) | 1,991 | 177,919 |
| December 31, 2018 | | | | | |
| Class A | 20,445 | – | (15,720) | 15 | 4,740 |
| Class F | 277,108 | 59,307 | (148,076) | 327 | 188,666 |

Lorica Canadian Fixed Income Fund

Notes to Financial Statements (Expressed in Canadian Dollars)

For the year ended December 31, 2019 and 2018

4. 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, 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, 2019, approximately \$nil (2018 - \$546) was received by the Manager in related fees and commissions under the standing instructions given by the Independent Review Committee (IRC).

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. As at December 31, 2019, the Fund had a receivable for expenses to be reimbursed by the Fund Manager of \$151,593 (2018 – nil).

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.

5. SECURITIES LENDING TRANSACTIONS

The Fund had entered into a securities lending program with its previous custodian in 2018, RBC Investor Trust Services, but not entered into a similar program with its current custodian in 2019, National Bank Independent Network (NBIN). As part of the previous lending program, 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 values of securities loaned and collateral held under securities lending transactions at December 31, 2018 were as follows:

Lorica Canadian Fixed Income Fund

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For the year ended December 31, 2019 and 2018

5. SECURITIES LENDING TRANSACTIONS (CONTINUED)

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

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

*Securities lending program with former custodian RBC Investor and Treasury Services.

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

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

*Securities lending program with former custodian RBC Investor and Treasury Services.

6. TAXATION AND DISTRIBUTION

Taxation of Unit Trusts

The Fund did not qualify as a mutual fund trust at its taxation year end of December 31, 2019. 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, 2019, the Fund has net capital losses of \$35,918 (2018 - \$35,918).

7. 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, 2019 and 2018, there were no differences between the net asset value per unit and the net asset per unit of the fund.

Lorica Canadian Fixed Income Fund

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For the year ended December 31, 2019 and 2018

8. 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 year. 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.

9. 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(e).

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, 2019 and 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------|---------|--------------|---------|--------------|
| Assets | | | | |
| Investments | \$ – | \$ 1,879,491 | \$ – | \$ 1,879,491 |
| | \$ – | \$ 1,879,491 | \$ – | \$ 1,879,491 |

| | Level 1 | Level 2 | Level 3 | Total |
|---------------|---------|--------------|---------|--------------|
| Assets | | | | |
| Investments | \$ – | \$ 1,864,037 | \$ – | \$ 1,864,037 |
| | \$ – | \$ 1,864,037 | \$ – | \$ 1,864,037 |

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 year ended December 31, 2019 and 2018, no financial instruments were transferred between Level 1 and Level 2 or any financial instruments transferred to Level 3.

(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, 2019, 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

Lorica Canadian Fixed Income Fund

Notes to Financial Statements (Expressed in Canadian Dollars)

For the year ended December 31, 2019 and 2018

9. FINANCIAL INSTRUMENTS (CONTINUED)

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, 2019 and 2018. 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.

| | | |
|---|-----------|------------------|
| December 31, 2019 | | |
| Less than 1 year | \$ | – |
| 1 - 5 years | | 586,636 |
| 6 - 10 years | | 844,019 |
| > 10 years | | 448,836 |
| Total | \$ | 1,879,491 |
| Potential Impact on Net Assets attributable to holders of redeemable units | \$ | 122,100 |
| December 31, 2018 | | |
| Less than 1 year | \$ | – |
| 1 - 5 years | | 977,832 |
| 6 - 10 years | | 809,149 |
| > 10 years | | 77,056 |
| Total | \$ | 1,864,037 |
| Potential Impact on Net Assets attributable to holders of redeemable units | \$ | 95,100 |

Lorica Canadian Fixed Income Fund

Notes to Financial Statements (Expressed in Canadian Dollars)

For the year ended December 31, 2019 and 2018

9. FINANCIAL INSTRUMENTS (CONTINUED)

(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, and distributions payable. 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.

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, 2019 was the Province of Ontario representing 14.16% of the net assets (December 31, 2018 – Province of Ontario representing 5.45% of the net assets) of the Fund.

The Fund invests in debt instruments, which have an investment grade as rated primarily by DBRS and S&P Global.

Lorica Canadian Fixed Income Fund

Notes to Financial Statements (Expressed in Canadian Dollars)

For the year ended December 31, 2019 and 2018

9. FINANCIAL INSTRUMENTS (CONTINUED)

Ratings for securities that subject the Fund to significant credit risk at December 31, 2019 and 2018 are noted below.

| December 31, 2019 | | Market Value |
|--------------------------|-----------|---------------------|
| Debt Instruments | | Total |
| AAA | \$ | – |
| AA | | 200,942 |
| A | | 1,335,758 |
| BBB | | 342,791 |
| Total | \$ | 1,879,491 |

| December 31, 2018 | | Market Value |
|--------------------------|-----------|---------------------|
| Debt Instruments | | Total |
| AAA | \$ | – |
| AA | | 226,649 |
| A | | 972,697 |
| BBB | | 664,691 |
| Total | \$ | 1,864,037 |

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 5.

(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, 2019 is shown in Fund's Schedule of Investment Portfolio.

10. SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak ("COVID-19") a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. In the first quarter of 2020 through the date of this report, the local and global markets experienced significant losses by the worldwide spread of COVID-19. As of the date of these financial statements, the extent to which the COVID-19 pandemic impacts the Fund's investment portfolio and consequently its net asset value will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and actions taken to contain it or its impact, among others.