

YTM Capital Fixed Income Alternative Fund

Financial Statements

For the period ended June 30, 2020

(Unaudited)



YTM Capital Fixed Income Alternative Fund

Financial Statements

For the period ended June 30, 2020

Contents

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MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements have been prepared by **YTM Capital Asset Management Ltd.** in its capacity as the Manager of the Fund. The Fund's Manager is responsible for the information and representations contained in these financial statements.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements made by the Manager. The significant accounting policies which the Trustee believes are appropriate for the Trust are described in Note 2 to the unaudited interim financial statements.

On behalf of the Trustee, YTM Capital Asset Management Ltd.

"Daniel Child" (Signed) _____

August 21, 2020 _____

Date

NOTICE TO UNITHOLDERS

The Auditors of the Trust have not reviewed these financial statements.

YTM Capital Asset Management Ltd., the Manager and Trustee of the Fund, appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice.

YTM Capital Fixed Income Alternative Fund

Statement of Financial Position

As at June 30, 2020 (Unaudited)

| | June 30, 2020 | December 31 2019 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Investments owned, at fair value | \$ 3,165,955 | \$ 5,950,797 |
| Investments owned, at fair value pledged as collateral | 92,400,904 | 56,715,331 |
| Accrued interest receivable | 652,646 | 352,840 |
| Cash | 285,376 | 279,050 |
| Subscriptions receivable | 227,684 | 7,000 |
| Expense reimbursement receivable | 41,766, | 40,514 |
| Prepaid expenses | 33,595 | – |
| | <u>96,807,926</u> | <u>63,345,532</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Investments sold short, at fair value | 66,421,957 | 41,858,446 |
| Accrued liabilities | 96,968 | 69,996 |
| Redemptions payable | – | 17,212 |
| Payable for interests on investments sold short | 188,753 | 126,204 |
| | <u>66,707,678</u> | <u>42,071,858</u> |
| Net Assets Attributable to Holders of Redeemable Units | <u>\$ 30,100,248</u> | <u>\$ 21,273,674</u> |
| Net Assets Attributable to Holders of Redeemable Units per Series | | |
| Series A | 2,071,887 | 955,824 |
| Series AF | 1,519,039 | 1,670,983 |
| Series F | 14,373,114 | 4,428,192 |
| Series FF | 12,136,208 | 14,218,675 |
| | <u>30,100,248</u> | <u>21,273,674</u> |
| Number of Redeemable Units Outstanding (Note 3) | | |
| Series A | 206,367 | 93,510 |
| Series AF | 152,030 | 164,670 |
| Series F | 1,422,863 | 432,529 |
| Series FF | 1,208,786 | 1,402,092 |
| Net Assets Attributable to Holders of Redeemable Units per Unit | | |
| Series A | \$ 10.04 | \$ 10.22 |
| Series AF | 9.99 | 10.15 |
| Series F | 10.10 | 10.24 |
| Series FF | 10.04 | 10.14 |

Approved by the Board of Directors of the Manager,
YTM Capital Asset Management Ltd.

“Daniel Child” _____ Director

“David Burbach” _____ Director

“Karl Burnham” _____ Director

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

YTM Capital Fixed Income Alternative Fund

Statement of Comprehensive Income

For the six-months ended June 30, 2020 (Unaudited)

| | 2020 | 2019* |
|--|---------------------|-----------------|
| Income | | |
| Interest for distribution purposes | \$ 1,127,408 | \$ 4,155 |
| Net realized (loss) gain on investments, including foreign exchange adjustments | (389,795) | 5,067 |
| Net change in unrealized appreciation (depreciation) on investments at fair value | (122,718) | 35 |
| Interest expenses on investments sold short | (407,924) | (713) |
| | <u>206,971</u> | <u>8,544</u> |
| Expenses | | |
| Interest and borrowing fees | 130,131 | – |
| Management fees (Note 4 and 5) | 103,395 | – |
| Administration fees | 59,708 | 1,341 |
| Audit fees | 14,456 | 753 |
| Independent review committee fees | 12,477 | 476 |
| Performance fees (Note 4 and 5) | 12,198 | 733 |
| Filing fees | 6,355 | 78 |
| Less: Waived expenses | (1,252) | (2,648) |
| | <u>337,468</u> | <u>733</u> |
| | | |
| (Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units | <u>\$ (130,497)</u> | <u>\$ 7,811</u> |
| | | |
| (Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units per Series (Note 8) | | |
| Series A | \$ (15,214) | 44 |
| Series AF | (26,070) | 389 |
| Series F | 66,460 | 44 |
| Series FF | (155,673) | \$ 7,334 |
| | <u>\$ (130,497)</u> | <u>\$ 7,811</u> |
| | | |
| (Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units per Unit (Note 8) | | |
| Series A | \$ (0.10) | \$ 0.01 |
| Series AF | (0.16) | 0.01 |
| Series F | 0.07 | 0.01 |
| Series FF | (0.11) | 0.01 |

* For the period from commencement of operations on June 24, 2019 to June 30, 2019

YTM Capital Fixed Income Alternative Fund

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

For the six-months ended June 30, 2020 (Unaudited)

| | Net assets attributable to holders of redeemable units, beginning of period | Increase in net assets attributable to holders of redeemable units | Proceeds from redeemable units issued and switch-in ⁽¹⁾ | Redemption of redeemable units and switch-out ⁽¹⁾ | Net assets attributable to holders of redeemable units, end of period |
|----------------------|---|--|--|--|---|
| June 30, 2020 | | | | | |
| Series A | \$ 955,824 | \$ (15,214) | \$ 1,131,977 | \$ (700) | \$ 2,071,887 |
| Series AF | 1,670,983 | (26,070) | – | (125,874) | 1,519,039 |
| Series F | 4,428,192 | 66,460 | 10,808,604 | (930,142) | 14,373,114 |
| Series FF | 14,218,675 | (155,673) | – | (1,926,794) | 12,136,208 |
| | <u>\$ 21,273,674</u> | <u>\$ (130,497)</u> | <u>\$ 11,940,581</u> | <u>\$ (2,983,510)</u> | <u>\$ 30,100,248</u> |

⁽¹⁾Total proceeds from redeemable units relating to switch-in and redemptions of redeemable units relating to switch-out for the period ended June 30, 2020 were \$166,816 and \$(166,816), respectively.

| | Net assets attributable to holders of redeemable units, beginning of period | Increase in net assets attributable to holders of redeemable units | Proceeds from redeemable units issued and switch-in ⁽¹⁾ | Redemption of redeemable units and switch-out | Net assets attributable to holders of redeemable units, end of period |
|---------------------------|---|--|--|---|---|
| December 31, 2019* | | | | | |
| Series A | \$ – | \$ 44 | \$ 74,000 | \$ – | \$ 74,044 |
| Series AF | – | 389 | 713,283 | – | 713,672 |
| Series F | – | 44 | 74,000 | – | 74,044 |
| Series FF | – | 7,334 | 11,341,741 | (50,586) | 11,298,489 |
| | <u>\$ –</u> | <u>\$ 7,811</u> | <u>\$ 12,203,024</u> | <u>\$ (50,586)</u> | <u>\$ 12,160,249</u> |

* For the period from commencement of operations on June 24, 2019 to June 30, 2019

YTM Capital Fixed Income Alternative Fund

Statement of Cash Flows

For the six-months ended June 30, 2020 (Unaudited)

| | 2020 | 2019* |
|---|--------------------|---------------------|
| Cash provided by (used in): | | |
| Operating Activities | | |
| (Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units | \$ (130,497) | \$ 7,811 |
| Adjustments for non-cash items | | |
| Net change in unrealized depreciation (appreciation) on investments at fair value | 389,795 | (5,067) |
| Net realized loss (gain) on investments, including foreign exchange adjustments | 122,718 | (35) |
| Change in non-cash balances | | |
| Accrued interest receivable | (299,806) | (176,136) |
| Expense reimbursement receivable | (1,252) | (2,648) |
| Prepaid expenses | (33,595) | – |
| Accrued liabilities | 26,972 | 3,381 |
| Payable for interest on investments sold short | 62,549 | 28,965 |
| Receivable for investments sold | – | (1,763,007) |
| Payable for investments purchased | – | 4,064,237 |
| Proceeds from sale of investments | 167,777,848 | 13,034,421 |
| Purchase of investments | <u>176,627,581</u> | <u>(26,451,437)</u> |
| Cash used in operating activities | <u>(8,712,849)</u> | <u>(11,259,515)</u> |
| Financing Activities | | |
| Proceeds from issuance of redeemable units | 11,553,081 | 11,839,903 |
| Amount paid on redemption of redeemable units | <u>(2,833,906)</u> | <u>–</u> |
| Cash provided by financing activities | <u>8,719,175</u> | <u>11,839,903</u> |
| Increase in cash during the period | 6,326 | 580,388 |
| Cash, beginning of period | <u>279,050</u> | <u>–</u> |
| Cash, end of period | <u>\$ 285,376</u> | <u>\$ 580,388</u> |
| Supplemental information** | | |
| Interest paid | \$ 251,787 | \$ 28,252 |
| Interest received | 760,240 | (171,981) |

* For the period from commencement of operations on June 24, 2019 to June 30, 2019

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

YTM Capital Fixed Income Alternative Fund

Schedule of Investment Portfolio

As at June 30, 2020 (Unaudited)

| Number of shares/units | Investments owned | Average cost | Fair cost | % of net asset value |
|------------------------------|--|--------------|------------|----------------------|
| Canadian fixed income | | | | |
| 800,000 | AltaGas Ltd. 2.609% 16DEC22 | \$ 800,000 | \$ 821,102 | 2.73 |
| 350,000 | AltaGas Ltd. 3.72% 28SEP21 | 358,771 | 360,483 | 1.20 |
| 4,150,000 | AT&T Inc. 3.825% 25NOV20 | 4,202,691 | 4,195,484 | 13.94 |
| 2,256,000 | Bank of America Corp. 1.185% 24APR22 | 2,232,985 | 2,248,984 | 7.47 |
| 50,000 | Bank of Montreal 2.88% 17SEP29 | 49,996 | 51,939 | 0.17 |
| 400,000 | Bank of Montreal 2.89% 20JUN23 | 409,836 | 422,104 | 1.40 |
| 2,800,000 | Bank of Montreal 3.34% 08DEC25 | 2,815,039 | 2,827,216 | 9.39 |
| 3,250,000 | Bell Canada 3.15% 29SEP21 | 3,324,230 | 3,330,828 | 11.07 |
| 450,000 | Bell Canada Inc. 2% 01OCT21 | 455,481 | 455,657 | 1.51 |
| 200,000 | BMW Canada Inc. 2.15% 26NOV21 | 199,984 | 201,960 | 0.67 |
| 1,400,000 | Brookfield Property Finance ULC 4.346% 03JUL23 | 1,451,646 | 1,419,026 | 4.71 |
| 2,000,000 | Bruce Power LP 2.844% 23JUN21 | 2,023,452 | 2,034,560 | 6.76 |
| 150,000 | Bruce Power LP 4% 21JUN30 | 149,895 | 168,524 | 0.56 |
| 300,000 | Canadian Government Bond 2% 01DEC51 | 379,566 | 381,813 | 1.27 |
| 1,400,000 | Canadian Imperial Bank of Commerce 2% 17APR25 | 1,398,936 | 1,432,746 | 4.76 |
| 400,000 | Canadian Imperial Bank of Commerce 2.43% 09JUN23 | 397,884 | 413,872 | 1.37 |
| 2,800,000 | Canadian Imperial Bank of Commerce 3.42% 26JAN26 | 2,818,788 | 2,836,260 | 9.42 |
| 1,000,000 | Canadian Imperial Bank of Commerce 3.45% 04APR28 | 1,032,260 | 1,045,940 | 3.47 |
| 50,000 | Capital Power Corp. 4.424% 08FEB30 | 49,991 | 53,555 | 0.18 |
| 475,000 | CI Financial Corp. 2.645% 07DEC20 | 477,118 | 477,380 | 1.59 |
| 1,700,000 | Coast Capital Savings Federal Credit Union 1.2175% 21JUL21 | 1,700,000 | 1,674,075 | 5.56 |
| 2,250,000 | Cogeco Communications Inc. 5.15% 16NOV20 | 2,287,307 | 2,281,298 | 7.58 |
| 1,700,000 | Concentra Bank 1.10375% 07FEB22 | 1,700,000 | 1,663,841 | 5.53 |
| 200,000 | Co-operators Financial Services Ltd. 3.327% 13MAY30 | 200,000 | 202,838 | 0.67 |
| 2,300,000 | Dollarama Inc. 0.9325% 01FEB21 | 2,295,055 | 2,296,343 | 7.63 |
| 100,000 | Energir Inc. 2.10% 16APR27 | 99,987 | 103,851 | 0.35 |
| 150,000 | Energir Inc. 5.45% 12JUL21 | 157,069 | 157,008 | 0.52 |
| 700,000 | ENMAX Corp. 2.922% 18OCT22 | 700,000 | 717,780 | 2.38 |
| 1,150,000 | Equitable Bank 2.948% 26SEP22 | 1,152,594 | 1,155,267 | 3.84 |
| 2,300,000 | Equitable Bank 3.198% 16APR21 | 2,321,275 | 2,324,794 | 7.72 |
| 600,000 | First National Financial Corp. 3.582% 25NOV24 | 600,000 | 593,052 | 1.97 |
| 2,500,000 | Ford Credit Canada Co. 1.39375% 21SEP20 | 2,501,883 | 2,485,600 | 8.26 |
| 150,000 | Ford Credit Canada Co. 4.46% 13NOV24 | 150,000 | 141,899 | 0.47 |
| 350,000 | Ford Credit Canada Ltd. 3.279% 02JUL21 | 351,183 | 345,048 | 1.15 |
| 850,000 | Fortified Trust 2.34% 23JAN23 | 850,000 | 873,987 | 2.90 |
| 400,000 | Fortified Trust 2.889% 23JAN23 | 399,992 | 407,992 | 1.36 |
| 300,000 | Genworth MI Canada Inc. 2.955% 01MAR27 | 299,997 | 287,016 | 0.95 |
| 100,000 | Granite REIT Holdings LP 3.062% 04JUN27 | 100,000 | 102,955 | 0.34 |
| 100,000 | H&R Real Estate Investment Trust 4.071% 16JUN25 | 100,000 | 101,033 | 0.34 |
| 450,000 | HSBC Bank Canada 2.908% 29SEP21 | 459,571 | 460,089 | 1.53 |
| 350,000 | Inter Pipeline Ltd. 4.232% 01JUN27 | 350,000 | 367,094 | 1.22 |
| 350,000 | John Deere Financial Inc. 2.99% 14JAN22 | 357,899 | 360,773 | 1.20 |
| 150,000 | Keyera Corp. 3.959% 29MAY30 | 150,000 | 158,117 | 0.53 |
| 4,150,000 | Kraft Canada Inc. 1.9025% 06JUL20 | 4,166,424 | 4,150,000 | 13.79 |

YTM Capital Fixed Income Alternative Fund

Schedule of Investment Portfolio (continued)

As at June 30, 2020 (Unaudited)

| Number of shares/units | Investments owned | Average cost | Fair cost | % of net asset value |
|--|--|--------------|--------------|----------------------|
| Canadian fixed income (continued) | | | | |
| 1,100,000 | Laurentian Bank of Canada 1.28375% 13SEP21 | \$ 1,100,000 | \$ 1,102,904 | 3.66 |
| 450,000 | Manulife Bank of Canada 1.504% 25JUN25 | 450,000 | 451,593 | 1.50 |
| 900,000 | Manulife Financial Corp. 2.237% 12MAY30 | 900,000 | 913,779 | 3.04 |
| 750,000 | MCAP Commercial LP 5% 14DEC22 | 780,315 | 764,138 | 2.54 |
| 600,000 | Merrill Lynch & Co Inc. 1.4875% 30MAY22 | 600,318 | 596,304 | 1.98 |
| 1,450,000 | Molson Coors International LP 2.75% 18SEP20 | 1,455,582 | 1,452,262 | 4.82 |
| 1,300,000 | Molson Coors International LP 2.84% 15JUL23 | 1,305,239 | 1,323,504 | 4.40 |
| 720,000 | Morgan Stanley 0.95875% 03FEB23 | 720,000 | 699,869 | 2.33 |
| 4,000,000 | Morgan Stanley 1.0675% 15OCT21 | 4,001,626 | 3,994,320 | 13.27 |
| 2,800,000 | Morguard Corp. 4.013% 18NOV20 | 2,801,904 | 2,799,832 | 9.30 |
| 650,000 | Morguard Corp. 4.204% 27NOV24 | 650,000 | 646,029 | 2.15 |
| 200,000 | OMERS Realty Corp. 1.298% 22SEP23 | 200,002 | 201,116 | 0.67 |
| 450,000 | Pembina Pipeline Corp. 2.56% 01JUN23 | 449,960 | 460,881 | 1.53 |
| 400,000 | Pembina Pipeline Corp. 4.89% 29MAR21 | 415,208 | 410,324 | 1.36 |
| 500,000 | Reliance LP 4.075% 02AUG21 | 514,360 | 508,940 | 1.69 |
| 425,000 | Royal Bank of Canada 2.088% 30JUN30 | 425,000 | 426,271 | 1.42 |
| 100,000 | Royal Bank of Canada 2.328% 28JAN27 | 98,399 | 104,443 | 0.35 |
| 750,000 | Royal Bank of Canada 2.609% 01NOV24 | 769,284 | 788,145 | 2.62 |
| 350,000 | Royal Bank of Canada 2.74% 25JUL29 | 350,000 | 361,837 | 1.20 |
| 2,800,000 | Royal Bank of Canada 3.31% 20JAN26 | 2,816,100 | 2,833,964 | 9.42 |
| 250,000 | Saputo Inc. 2.242% 16JUN27 | 250,000 | 253,798 | 0.84 |
| 2,000,000 | Smart Real Estate Investment Trust 2.876% 21MAR22 | 2,026,000 | 2,028,020 | 6.74 |
| 900,000 | SmartCentres Real Estate Investment Trust 1.22375% 21DEC20 | 902,772 | 896,058 | 2.98 |
| 150,000 | SmartCentres Real Estate Investment Trust 3.192% 11JUN27 | 150,000 | 152,750 | 0.51 |
| 4,850,000 | TD Capital Trust IV 6.631% 30JUN08 | 5,085,962 | 5,083,285 | 16.89 |
| 150,000 | Teranet Holdings LP 3.544% 11JUN25 | 150,000 | 153,752 | 0.51 |
| 1,557,000 | Teranet Holdings LP 4.807% 16DEC20 | 1,605,829 | 1,579,203 | 5.25 |
| 2,780,000 | The Bank of Nova Scotia 3.367% 08DEC25 | 2,777,239 | 2,807,911 | 9.33 |
| 3,000,000 | The Goldman Sachs Group Inc. 3.55% 12FEB21 | 3,043,137 | 3,046,020 | 10.12 |
| 2,150,000 | The Manufacturers Life Insurance Co. 2.389% 05JAN26 | 2,161,204 | 2,164,427 | 7.19 |
| 550,000 | The Toronto-Dominion Bank 2.982% 30SEP25 | 554,180 | 552,745 | 1.84 |
| 200,000 | The Toronto-Dominion Bank 3.105% 22APR30 | 200,000 | 210,574 | 0.70 |
| 300,000 | Thomson Reuters Corp. 2.239% 14MAY25 | 300,000 | 307,632 | 1.02 |
| 100,000 | Toyota Credit Canada Inc. 2.31% 23OCT24 | 99,970 | 103,279 | 0.34 |
| 2,050,000 | Transcanada Pipelines Ltd Residual Strip 0% 20NOV20 | 2,002,932 | 2,031,199 | 6.75 |
| 900,000 | Vancouver City Savings Credit Union 1.265% 09OCT20 | 900,000 | 900,342 | 2.99 |
| 350,000 | Ventas Canada Finance Ltd. 1.15375% 12NOV21 | 350,000 | 339,997 | 1.13 |
| 850,000 | VW Credit Canada Inc. 1.24125% 27SEP21 | 850,000 | 842,962 | 2.80 |
| 1,300,000 | Wells Fargo & Co. 2.094% 25APR22 | 1,319,370 | 1,319,617 | 4.38 |
| | | 94,010,677 | 94,205,209 | 312.99 |
| U.S. fixed income | | | | |
| 1,000,000 | Laurentian Bank of Canada 1.09338% 13DEC21 | 1,320,300 | 1,361,650 | 4.52 |
| | Total investments owned | 95,330,977 | 95,566,859 | 317.51 |

YTM Capital Fixed Income Alternative Fund

Schedule of Investment Portfolio (continued)

As at June 30, 2020 (Unaudited)

| Number of shares/units | Investments sold short | Average cost | Fair cost | % of net asset value |
|---|--|----------------------|----------------------|----------------------|
| Canadian fixed income | | | | |
| (450,000) | Bell Canada Inc. 3.50% 30SEP50 | \$ (467,861) | \$ (471,807) | (1.57) |
| (3,943,000) | Canadian Government Bond 0.50% 01MAR22 | (3,887,207) | (3,960,270) | (13.16) |
| (750,000) | Canadian Government Bond 0.50% 01SEP25 | (754,201) | (755,175) | (2.51) |
| (8,650,000) | Canadian Government Bond 0.75% 01MAR21 | (8,676,022) | (8,681,486) | (28.84) |
| (3,475,000) | Canadian Government Bond 0.75% 01SEP20 | (3,471,825) | (3,478,160) | (11.56) |
| (4,580,000) | Canadian Government Bond 0.75% 01SEP21 | (4,600,946) | (4,608,854) | (15.31) |
| (870,000) | Canadian Government Bond 1% 01JUN27 | (899,030) | (905,044) | (3.01) |
| (4,900,000) | Canadian Government Bond 1% 01SEP22 | (4,816,064) | (4,977,420) | (16.54) |
| (350,000) | Canadian Government Bond 1.25% 01JUN30 | (372,690) | (374,479) | (1.24) |
| (1,550,000) | Canadian Government Bond 1.25% 01MAR25 | (1,609,623) | (1,614,899) | (5.37) |
| (200,000) | Canadian Government Bond 1.25% 01NOV21 | (198,854) | (202,710) | (0.67) |
| (3,500,000) | Canadian Government Bond 1.50% 01JUN23 | (3,514,330) | (3,626,105) | (12.05) |
| (450,000) | Canadian Government Bond 1.50% 01JUN26 | (471,322) | (479,835) | (1.59) |
| (2,305,000) | Canadian Government Bond 1.50% 01SEP24 | (2,406,625) | (2,416,585) | (8.03) |
| (1,400,000) | Canadian Government Bond 1.75% 01MAR23 | (1,454,900) | (1,455,090) | (4.83) |
| (9,939,000) | Canadian Government Bond 2% 01NOV20 | (10,024,079) | (9,998,137) | (33.22) |
| (200,000) | Canadian Government Bond 2% 01SEP23 | (210,620) | (210,700) | (0.70) |
| (2,900,000) | Canadian Government Bond 2.25% 01FEB21 | (2,938,181) | (2,934,597) | (9.75) |
| (1,300,000) | Canadian Government Bond 2.25% 01JUN25 | (1,421,191) | (1,422,317) | (4.73) |
| (50,000) | Canadian Government Bond 2.25% 01JUN29 | (53,141) | (57,740) | (0.19) |
| (300,000) | Canadian Government Bond 2.50% 01JUN24 | (322,404) | (325,776) | (1.08) |
| (8,325,000) | Canadian Government Bond 3.25% 01JUN21 | (8,579,655) | (8,556,019) | (28.43) |
| | | (61,150,771) | (61,513,205) | (204.38) |
| Canadian Money Market | | | | |
| (450,000) | Canadian Treasury Bill 0% 16JUL20 | (449,798) | (449,973) | (1.49) |
| (550,000) | Canadian Treasury Bill 0% 17SEP20 | (547,877) | (549,764) | (1.83) |
| (2,550,000) | Canadian Treasury Bill 0% 12NOV20 | (2,515,801) | (2,547,986) | (8.47) |
| | | (3,513,476) | (3,547,723) | (11.79) |
| U.S. Money Market | | | | |
| (1,000,000) | United States Treasury Bill 0% 10SEP20 | (1,338,158) | (1,361,029) | (4.52) |
| Total investments sold short | | (65,004,730) | (66,421,957) | (220.69) |
| Net investments owned | | <u>\$ 30,326,247</u> | 29,144,902 | 96.82 |
| Other assets, net | | | 955,346 | 3.18 |
| Net Assets Attributable to Holders of Redeemable Units | | | <u>\$ 30,100,248</u> | <u>100.00</u> |

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

1. The Fund

YTM Capital Fixed Income Alternative Fund (the "Fund") is an open-ended unit trust formed under the laws of the Province of Ontario by a Master Declaration of Trust dated as of May 22, 2019. The address of the Fund's registered head office is 295 Robinson Street, Suite 202, Oakville, ON L6J 1G7. The Fund commenced operations on June 24, 2019.

YTM Capital Asset Management Ltd. is the manager ("Manager"), promoter and Trustee of the Fund.

The investment objective of the Fund is to provide maximum risk adjusted returns over the long term and to preserve capital, by investing primarily in fixed-income securities, cash, and by entering into derivatives arrangements. The Fund uses alternative strategies including engaging in physical short sales, cash borrowing for investment purposes, and may use derivatives, in the process creating leverage.

The Fund is subject to certain restrictions and practices contained in securities legislation, including National Instrument 81-102 ("NI 81-102"), which are designed, in part, to ensure that the investments of alternative mutual funds are diversified and relatively liquid and to ensure the proper administration of alternative mutual funds. The Manager intends to manage the Fund in accordance with these restrictions and practices or to obtain relief from the securities regulatory authorities before implementing any variations. The following provides a description of the exemptions that the Fund has obtained from the provisions of NI 81-102.

In order to permit the Fund to short sell "government securities" as that term is defined in NI 81-102, up to a maximum of 300% of the Fund's net asset value ("NAV"), the Fund has obtained an exemption from:

- (i) subparagraph 2.6.1(1)(c)(v) of NI 81-102, which restricts the Fund from selling a security short if, at the time, the aggregate market value of the securities sold short by the Fund exceeds 50% of the Fund's NAV; and
- (ii) section 2.6.2 of NI 81-102, which states that the Fund may not borrow cash or sell securities short if, immediately after entering into a cash borrowing or short selling transactions, the aggregate value of cash borrowing combined with the aggregate market value of the securities sold short by the Fund would exceed 50% of the Fund's NAV.

These financial statements for the period ended June 30, 2020 were authorized for issue by the Manager on August 21, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss which are presented at fair value.

The following summarizes the accounting policies of the Fund:

Valuation of Investments

The fair value of financial assets and financial liabilities traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices. Investment positions are based on the mid-market price for the purpose of determining the net asset value per unit for subscriptions and redemptions. For financial reporting purposes, the Fund uses the mid-market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstance where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

Financial Instruments

(a) Classification

The Fund classifies its investments at fair value through profit or loss ("FVTPL").

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

2. Significant Accounting Policies (Continued)

Financial Instruments (continued)

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 and objective. 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. Investments that are recorded as financial liabilities such as short sales are also classified as fair value through profit and loss.

The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model objective.

The Fund classifies financial assets and financial liabilities other than its investments into the following categories:

Financial assets are classified as subsequently measured at amortized cost and recorded at amortized cost: Accrued interest receivable, subscription receivable and expense reimbursement receivable.

Financial liabilities are classified as subsequently measured at amortized cost and recorded at amortized cost: Accrual liabilities payable for interest on investments sold short and redemptions payable.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair market value through profit and loss.

The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount.

(b) Recognition / derecognition

The Fund recognizes financial instruments at fair value upon initial recognition. Transaction costs are expensed as incurred in the statement of comprehensive income. Regular purchases and sales of financial assets are recognized at their trade date. Any gains and losses arising from changes in fair value of the assets or liabilities at fair value through profit and loss are presented in the Statement of Comprehensive Income with net-realized gain (loss) on investments including foreign exchange adjustments.

Financial assets are derecognized only when the contractual rights to the cash flows from the asset have expired, or the Fund has transferred all the risks and rewards of ownership. The Fund derecognizes financial liabilities when the Fund's obligations are discharged, cancelled or they expire. Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss are measured at fair value.

All other assets and liabilities are carried at amortized cost; their carrying values are a reasonable approximation of fair value.

(c) Classification of fair value measurement

IFRS 13 "Fair Value Measurement" requires the Fund to classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurement. The fair value hierarchy has the following levels:

- Level 1** Quoted (unadjusted) prices in active markets for identical financial assets or financial liabilities
- Level 2** Inputs other than quoted prices included in Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices)
- Level 3** Inputs for the financial asset or financial liability that are not based on observable market data (i.e. unobservable inputs)

Refer to Note 6 for more information.

(d) Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

2. Significant Accounting Policies (Continued)

Investment Transactions and Income Recognition

Investment transactions are accounted for on the trade date which is the date that an order is executed. Income from investments is recognized on an accrual basis. Realized gains and losses from investments and unrealized appreciation (depreciation) from investments are calculated on an average cost basis. Interest income for distribution purposes is accrued daily based on coupon rate and dividend income is recognized on the ex-dividend rate. The net asset value of each series of units is based on that series of units' proportionate share of the assets of the Fund, less that series of units' proportionate share of the common liabilities of the Fund and less any liabilities attributable to that series of units.

Investment income and net realized and unrealized gains or losses are allocated on a pro-rata basis to each series of units based on the relative net assets of each series to the total net assets of the Fund.

Expenses of the Fund are allocated on a pro-rata basis to each series of units based on the relative net assets of each series to the total net assets of the Fund, except expenses and fees applicable only to a specific series of units, which are deducted from the net asset value of that series of units only.

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the Statements of Financial Position date respectively.

Impairment of Financial Assets

IFRS 9 uses an expected credit loss model, which requires the use of the lifetime expected credit loss provision for all other assets. At each reporting date, the Fund shall measure the loss allowance on financial assets at amortized cost at an amount equal to the lifetime expected credit losses based on credit risk. Losses on financial assets at amortized cost, if any, are recognized in the statement of comprehensive income.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less and bank overdrafts.

Foreign Currency Translation

Income, expense and investment transactions in foreign currencies are translated at the rate of exchange prevailing at the transaction date. Financial assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting date which is the last business day of each calendar month. Resulting exchange differences are recognized in the Statements of Comprehensive Income.

Income Taxes

The Fund qualifies as a "mutual fund trust" within the meaning of the Income Tax Act (Canada). The Fund is subject to applicable federal and provincial taxes on the amount of its net income for tax purposes for the year, including net realized taxable capital gains, to the extent such net income for tax purposes has not been paid or made payable to unitholders in the year.

No provision for income taxes has been recorded in the accompanying financial statements as all income and net realized capital gains are distributed to the unitholders.

As at the Fund's taxation year end, the Fund did not have capital and/or non-capital loss carryforwards for income tax purposes. Capital and non-capital loss carryforwards are reported in note 9.

Capital losses may be carried back three years and forwards indefinitely to be applied against capital gains. Non-capital losses, if any, may be carried back three years and forward up to 20 years to reduce taxable income. The year(s) of expiry of non-capital loss carryforwards are reported in note 9.

Net Assets Attributable to Holders of Redeemable Units per Unit

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular series by the total number of units of that particular series outstanding at the end of the period.

(Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units Per Unit

(Decrease) Increase in net assets attributable to holders of redeemable units per unit is based on the (decrease) increase in net assets attributable to holders of redeemable units attributed to each series, divided by the weighted average number of units outstanding of that series during the period.

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

2. Significant Accounting Policies (Continued)

Related Parties

For the purpose of these financial statements, a party is considered related to the Fund if such party or the Fund has the ability to, directly or indirectly, control or exercise significant influence over the other entity's financial and operating decisions, or if the Fund and such party are subject to common significant influence. Related parties may be individuals or other entities.

Classification of Redeemable Units Issued by the Fund

IAS 32 "Financial Instruments: Presentation" requires that redeemable units of the Fund, which are considered puttable instruments, be classified as either financial liabilities or equity instruments. The Fund has multiple series with features such as management fees that are not identical. The puttable instruments of the Funds do not meet the identical features criteria to be classified as equity and therefore must be classified as financial liabilities.

Critical Estimates and Judgements

In the application of the Fund's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Collateral

For collateral other than cash, if the party to whom the collateral is provided has the right by contract or custom to sell or re-pledge the collateral, the Fund classifies that asset in its statement of financial position separately from other assets and identifies the asset as pledged collateral. Where the party to whom the collateral is provided does not have the right to sell or re-pledge, a disclosure of the collateral provided is made in the notes to the financial statements.

Leverage

The Fund can create leverage by selling securities short, borrowing cash, or by using derivatives to generate investment exposure that would otherwise not be available. The maximum aggregate exposure created by leverage is 300% of the Fund's NAV. Leverage is calculated by adding together (i) market value of securities sold short; (ii) the amount of cash borrowed for investment purposes; and (iii) the notional value of derivatives positions used for non-hedging purposes, divided by the Fund's NAV. The Fund has received from securities regulators a partial exemption from the National Instrument 81-102 rule that limits short sales to 50% of a fund's NAV. The Fund is permitted short sell up to 300% of its NAV in "government securities" as that term is defined in NI 81-102.

During the period from the Fund's inception to December 31, 2019, the Fund's leverage position ranged from 142% to 277% (December 31, 2019 - 100% to 247%) of the Fund's NAV. The low end of the range occurred in February and the high end of the range was reached in May. The primary sources of leverage were the physical short positions in Government of Canada bonds the margin borrowings, which is governed by a prime brokerage agreement between the Fund and BMO Nesbitt Burns Inc., and, to a lesser extent, margin borrowing.

Margin Borrowing

Margin borrowing is recognized at fair value net of transaction costs incurred. It is subsequently valued at amortized cost; any difference is recognized in the Statement of Comprehensive Income over the period of the borrowing using the effective interest method.

The Fund has a margin borrowing facility for investment purposes that is based on margin rates as determined by the Investment Industry Regulatory Organization of Canada (IIROC).

The margin borrowing facility has no maturity and bears interest at Canadian overnight rates plus agreed spread with BMO. The margin borrowing facility can be settled by the Fund at its discretion without any penalty. Margin borrowing is payable on demand.

Margin borrowing is secured by certain assets of the Fund.

The carrying value of the margin borrowing approximates its fair value and is shown as margin borrowing in the Statement of Financial Position.

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

3. Redeemable Units

Each unit of the Fund represents an interest in the net assets of the Fund. Each unit of the Fund is entitled to one vote at any meeting of unitholders of the Fund. Each unit of the Fund is also entitled, subject to any management fee distributions, to participate on a pro rata basis in any distribution made by the Fund. Fractional units of the Fund are proportionately entitled to all the same rights as other units of that series of the Fund, except that they are non-voting. All units of the Fund are fully paid when issued and are generally not transferable. Units of the Fund are redeemable at the option of the unitholder owning such units. The number of units of the Fund that may be issued is unlimited. The units of the Fund are issued and redeemable at the NAV of the Fund on a daily basis. There are no differences between the NAV per units of each series of the Fund and Net Assets Attributable to Holders of Redeemable Units per Unit of each series of the Fund.

The Fund has created Series A, Series A Founders ("Series AF"), Series F, Series F Founders ("Series FF") and Series I. The Fund offered Series AF and Series FF at the start of Fund operations (the "Founders Period"). Only Series A and Series F are now available for purchase. Series A units are available to retail investors and Series F unit are available to retail investors who have a fee-based account. Series I units are issued to certain investors at the Manager's discretion. As at June 30, 2020, only Series A, Series AF, Series F and Series FF were issued.

If the purchase of units or redemption of units order is received by the Manager before 4:00 p.m. (Toronto Time) on any valuation day (being any day the Toronto Stock Exchange is open, the "Valuation Day"), the order will be processed at the unit price calculated later that day. Otherwise, the order will be processed at the unit price calculated on the next Valuation Day. The proceeds of redemption of units are sent to the unitholders at latest in two business days after the Valuation Day used to process the sell order. Any interest earned on the proceeds of an order to redeem before the proceeds are received by the unitholder will be credited to the Fund, not to the unitholder's account. Redemption proceeds are paid in the Canadian dollars.

Under exceptional circumstances the Fund may be unable to process your redemption order. This would most likely occur if market trading has been suspended on stock exchanges, options exchanges or futures exchanges on which more than 50% by value of the Fund's assets are listed and if the Fund's portfolio securities cannot be traded on any other exchange that represents a reasonably practical alternative. During these periods, units will also not be issued or reclassified.

If a unitholder redeems units of the Fund within 30 days of purchasing such units, the Fund may deduct and retain, for the benefit of the remaining unitholders in the Fund, 2% of the net asset value of the units of the particular series of the Fund being redeemed.

Unitholders may reclassify all or part of their investment from one series of units to another series of units, as long as the unitholders are eligible to hold that series of units. Reclassifications into Series AF and Series FF are not available after the Founders Period. If the reclassification order is received by the Manager before 4:00 p.m. (Toronto Time) on any Valuation Day, the order will be processed at the unit price calculated later that day. Otherwise, the order will be processed at the unit price calculated on the next Valuation Day.

The Manager will reclassify Series AF units to Series A unit and Series FF units to Series F units on September 24, 2020, after which time investors who were in Series AF and Series FF will pay fees at the Series A and Series F rates.

Unitholder transactions during the period ended June 30, 2020 and 2019 were as follows:

| | Redeemable units, beginning of period | Redeemable units issued | Redemption of redeemable units | redeemable units, end of period |
|-----------------------|---|----------------------------|-----------------------------------|------------------------------------|
| June 30, 2020 | | | | |
| Series A | 93,510 | 112,928 | (71) | 206,367 |
| Series AF | 164,670 | – | (12,640) | 152,030 |
| Series F | 432,529 | 1,082,926 | (92,592) | 1,422,863 |
| Series FF | 1,402,092 | – | (193,306) | 1,208,786 |
| June 30, 2019* | | | | |
| Series A | – | 7,400 | – | 7,400 |
| Series AF | – | 71,320 | – | 71,320 |
| Series F | – | 7,400 | – | 7,400 |
| Series FF | – | 1,134,164 | (5,055) | 1,129,109 |

*For the period from commencement of operations on June 24, 2019 to June 30, 2019

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

3. Redeemable Units (Continued)

Distributions

The Manager currently intends that the Fund makes periodic distributions to unitholders, at the discretion of the Manager. If the Fund's net income for tax purposes, including net realized taxable capital gains, for any year, net of any available loss carry forwards from prior years, exceeds the aggregate amount of the regular monthly distributions made in the year to unitholders, the Fund may also be required to pay one or more special distributions in such year to Unitholders as is necessary to ensure that the Fund will not be liable for income tax on such amounts under the Tax Act.

4. Management Fees, Performance Fees and Expenses

Management Fees

Pursuant to the management agreement between the Fund and the Manager, the Manager is to provide advisory services to the Fund. For this service, the Fund has agreed to pay the Manager a management fee, which is calculated and accrued daily, based on the percentage of the net asset value of the series of units, plus applicable taxes, and is payable on the last day of each calendar month.

Annual management fees vary by series, as described below:

Series A units: 1.90% per annum

Series A Founders units: 1.45% per annum

Series F units: 0.90% per annum

Series F Founders units: 0.45% per annum

Series I units: Negotiated by the investor and paid directly by the investor to the Manager.

The management fee rate will not exceed the management fee payable on Series A units.

All management fees are subject to applicable taxes and are paid by the Fund each month. For the Period, the management fees earned, inclusive of applicable taxes, was \$103,395 (June 30, 2019 - nil). The Manager waived its right to collect \$6,006 (June 30, 2019 - nil) management fees during the period.

Performance Fees

The Manager is eligible to receive a performance fee in respect of each series. The Fund pays the Manager a performance fee each calendar quarter (a "Performance Fee Determination Period") equal to 15% of the Net Profit (as defined below) of Series A and Series F units and 7.5% of the Net Profit of each of Series AF and Series FF, subject to the High Watermark (as defined below), plus applicable taxes. The performance fee is calculated and accrued for each series on a daily basis during each Performance Fee Determination Period and, with respect to an intra-quarter redemption of units of a series, on the relevant redemption date.

Net Profit means, in respect of any series for any Performance Fee Determination Period, the amount calculated by deducting the initial NAV per unit of the series for that Performance Fee Determination Period from the closing NAV per unit of such series for that Performance Fee Determination Period and multiplying the resulting amount by the total number of the units of such series outstanding at the close of business on the last business day in that Performance Fee Determination Period (and, with respect to an intra-quarter redemption, on the relevant redemption date). In calculating Net Profit, the impact of any distributions paid during the Performance Fee Determination Period will be eliminated.

No performance fee shall be paid in respect of a series unless the Series NAV per unit exceeds the highest NAV per unit in respect of which a performance fee has been previously paid for that series or, in the case of the start of a Series, unless the Series NAV per unit exceeds the initial NAV per unit (the "High Watermark") and, in such circumstances, a performance fee shall only be paid on that portion of the Net Profit that exceeds the High Watermark.

Investors in Series I units may negotiate a performance fee (in accordance with applicable regulatory requirements) to be paid by the investor that is different than the one described above or no performance fee at all.

Expenses

The Fund pays expenses relating to its operation including professional fees, IRC fees, investment transaction costs and administrative costs relating to the issue and redemption of units as well as the cost of financial and other reports and compliance

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

with all applicable laws, regulations and policies.

5. Related Party Transactions

For the period ended June 30, 2020, management fees of \$103,395 (June 30, 2019 - nil) and performance fees of \$12,198 (June 30, 2019 - \$733) were paid to the Manager. At the period-end \$17,157 (December 31, 2019 - \$1,949) was due to the Manager relating to management fees and \$12,198 (December 31, 2019 - \$nil) relating to performance fees.

As at June 30, 2020, 7,494 (December 31, 2019 – 7,494) Series A units, 102 (December 31, 2019 – 102) Series AF units, 7,486 (December 31, 2019 – 7,486) Series F units and 102 (December 31, 2019 – 102) Series FF units were held by a Partner, or a person related to a Partner, of the Manager.

6. Fair Value Hierarchy

| June 30, 2020 | Level 1 | Level 2 | Level 3 | Total |
|--------------------|---------|---------------|---------|---------------|
| Assets | | | | |
| Fixed Income | – | \$ 95,566,859 | – | \$ 95,566,859 |
| | – | \$ 95,566,859 | – | \$ 95,566,859 |
| Liabilities | | | | |
| Fixed Income | – | \$ 61,513,205 | – | \$ 61,513,205 |
| Money Market | – | 4,908,721 | – | 4,908,752 |
| | – | \$ 66,421,957 | – | \$ 66,421,957 |

| December 31, 2019 | Level 1 | Level 2 | Level 3 | Total |
|--------------------|---------|---------------|---------|---------------|
| Assets | | | | |
| Fixed Income | – | \$ 58,677,407 | – | \$ 58,677,407 |
| Money Market | – | 3,988,721 | – | 3,988,721 |
| | – | \$ 62,666,128 | – | \$ 62,666,128 |
| Liabilities | | | | |
| Fixed Income | – | \$ 37,499,045 | – | \$ 37,499,045 |
| Money Market | – | 4,359,401 | – | 4,359,401 |
| | – | \$ 41,858,446 | – | \$ 41,858,446 |

There was no level transfer during the periods ended June 30, 2020 and December 31, 2019.

7. Financial Instruments and Risk Management

The Fund may use various forms of leverage that increases the effect of any investment value changes on capital. These include the use of short sales, margin borrowing and derivatives. While borrowing and leverage present opportunities for increasing total return, they have the effect of potentially increasing losses as well.

If the gains on financial assets made with borrowed funds are less than the costs of the leverage or, under certain circumstances, if the borrowing is terminated by the applicable lenders or counterparties in advance of its stated term, the value of the Fund's net assets attributable to holders of redeemable units will decrease. Therefore, any event that adversely affects the value of an investment by the Fund would be magnified to the extent leverage is employed. The cumulative effect of the use of leverage in a market that moves adversely to a leveraged investment could result in a substantial loss which would be greater than if leverage were not used.

The Manager mitigates the risks outlined above by investing in investment grade bonds that typically have a short maturity profile.

The Fund's investments are exposed to various types of risk including credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). These risks and related risk management practices employed by the Fund are described below:

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

7. Financial Instruments and Risk Management (Continued)

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

Where the Fund invests in debt instruments, this represents the main concentration of credit risk. The market value of debt instruments includes consideration of the credit worthiness of the issuer, and accordingly, represents the maximum credit risk exposure of the fund.

All transactions executed by the Fund in listed securities are settled/paid 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 clearing and depository operations for the Fund's security transactions are mainly concentrated with one prime broker, namely BMO Nesbitt Burns Inc. BMO Nesbitt Burns Inc. is a member of major securities exchanges including the NYSE, NASDAQ and TMX exchanges, and at June 30, 2020 and December 31, 2019 had a credit rating of AA. At June 30, 2020 and December 31, 2019, substantially all cash and cash equivalents, balances due from broker and investments are placed in custody with BMO.

The Fund has provided a general lien over a sub-set of assets held in custody in return for services including securities borrowing and cash borrowing. BMO Nesbitt Burns Inc. has the right to require collateral in respect of securities sold short and cash borrowing. The amount of collateral required is governed by IIROC rules. Depending on the type of transactions entered into by the Fund, the Fund may be required to post collateral valued as much as 43% (December 31, 2020 - 43%) of the Fund. BMO Nesbitt Burns Inc. may sell or re-pledge the collateral it receives. The Fund is therefore also exposed to credit risk to BMO Nesbitt Burns Inc. to the extent that collateral provided has been sold or re-pledged.

The Fund has entered into a prime brokerage agreement with BMO Nesbitt Burns Inc., pursuant to which it has granted a security interest in its assets.

June 30, 2020

| Debt Instruments by Credit Rating | % of Credit Exposure |
|--------------------------------------|-------------------------|
| AAA | 1.3% |
| AA | 2.6% |
| A | 28.1% |
| BBB | 60.5% |
| BB | 7.5% |
| | <u>100%</u> |

December 31, 2019

| Debt Instruments by Credit Rating | % of Credit Exposure |
|--------------------------------------|-------------------------|
| AAA | 2.3% |
| AA | 1.1% |
| A | 29.3% |
| BBB | 66.9% |
| BB | 0.4% |
| | <u>100%</u> |

The above credit risk exposure is presented as a percentage of investments owned at fair value as identified in the Schedule of Investment Portfolio.

Liquidity Risk

Liquidity risk is the risk of the Fund not being able to meet its obligations with respect to unit redemptions on time or at a reasonable price. The Fund is exposed to cash redemptions as detailed in Note 3. Investments can be easily disposed of and the Fund has the ability to borrow from the prime broker.

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

7. Financial Instruments and Risk Management (Continued)

Liquidity Risk (continued)

There is no guarantee that existing borrowing facilities or arrangements for obtaining leverage, will remain in place for the life of the Fund. The Fund's borrowing facilities are subject to a security interest in favour of the relevant creditors.

Following an event of default under such facilities, the creditors could direct sales of the collateral assets. The prices obtained in any such liquidation or foreclosure sales may not be sufficient to repay the Fund's obligations under the facilities, in which case the Fund may not have sufficient remaining funds to distribute.

Further, most leveraged transactions require the posting of collateral. A decrease in fair value of such financial assets may result in the lender, including derivative counterparties, requiring the Fund to post additional collateral or otherwise sell assets at a time when it may not be in the Fund's best interest to do so. A failure of the Fund to continue to post the required collateral could result in a disposition of Fund's assets at times and prices, which could be disadvantageous to the Fund and could result in substantial losses having a material adverse effect on the Fund. To the extent that a creditor has a claim on the Fund, such claim would be senior to the rights of the redeemable participating unitholders. This risk is mitigated by the facts that the margin requirement for most of the Fund's investments are less than 10%, that the Fund is invested in public investment grade bonds, and that the Fund hedges most interest rate risk the price volatility of these investments in low..

Expiration or withdrawal of available financing for leverage positions, and the requirement to post collateral in respect of changes in the fair value of leveraged exposures, can rapidly result in adverse effects to the Fund's access to liquidity and its ability to maintain leveraged positions, and may cause the Fund to incur material losses.

The Fund's contractual obligations are as follows:

June 30, 2020

| Financial liabilities | < 1 month | < 3 months | Total |
|---------------------------------------|------------|------------|------------|
| Accrued liabilities | \$ – | \$ 96,968 | \$ 96,968 |
| Redemptions payable | 66,421,957 | – | 66,421,957 |
| Investments sold short, at fair value | – | 188,753 | 188,753 |
| Redeemable units* | 30,100,248 | – | 30,100,248 |

*Redeemed units are payable within 90 days.

December 31, 2019

| Financial liabilities | < 1 month | < 3 months | Total |
|--|------------|------------|------------|
| Accrued liabilities | \$ – | \$ 96,968 | \$ 96,968 |
| Redemptions payable | 17,212 | – | 17,212 |
| Investments sold short, at fair value | 41,858,446 | – | 41,858,446 |
| Payable for interest of investments sold short | – | 126,204 | 126,204 |
| Redeemable units* | 21,273,674 | – | 21,273,674 |

*Redeemed units are payable within 90 days.

Interest Rate Risk

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

As at June 30, 2020 and December 31, 2019, the Fund's exposure to debt instruments by maturity and the impact on Net Assets had the yield curve shifted higher in parallel by 25 basis points, with all other variables held constant ("sensitivity"), are as follows:

June 30, 2020

| Debt Instruments by Maturity Date | Long Positions | Short Positions | Net |
|-----------------------------------|----------------|-----------------|----------------|
| Less than 1 year | \$ 33,360,699 | \$ (38,557,151) | \$ (5,196,452) |
| 1-3 years | 30,090,452 | (18,830,449) | 11,260,003 |
| 3-5 years | 7,662,806 | (5,990,277) | 1,672,529 |
| Greater than 5 years | 24,452,902 | (3,044,080) | 21,408,822 |
| Sensitivity | 18,725 | | |

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

7. Financial Instruments and Risk Management (Continued)

Interest Rate Risk (continued)

December 31, 2019

| Debt Instruments by Maturity Date | Long Positions | Short Positions | Net |
|-----------------------------------|----------------|-----------------|--------------|
| Less than 1 year | \$ 18,721,389 | \$ (9,127,721) | \$ 9,593,668 |
| 1-3 years | 25,866,305 | (16,784,431) | 9,081,874 |
| 3-5 years | 10,445,556 | (11,811,520) | (1,365,964) |
| Greater than 5 years | 7,632,878 | (4,134,774) | 3,498,104 |
| Sensitivity | 118,150 | | |

In practice, actual trading results may differ from the above sensitivity analysis and the difference could be material.

The Fund uses various forms of leverage that increase the Fund's interest costs. There is no guarantee that existing borrowing arrangements or other arrangements for obtaining leverage can be refinanced at rates as favourable to the Fund as those available in the past.

Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk.

June 30, 2020

| Market segment | Long Position | Short Position |
|------------------------|---------------|----------------|
| Government | 0% | 99% |
| Financial | 62% | 0% |
| Consumer, Cyclical | 7% | 0% |
| Energy | 5% | 0% |
| Consumer, Non-cyclical | 12% | 0% |
| Utilities | 3% | 0% |
| Communications | 11% | 1% |

December 31, 2019

| Market segment | Long Position | Short Position |
|------------------------|---------------|----------------|
| Government | 0% | 100% |
| Financial | 55% | 0% |
| Consumer, Cyclical | 14% | 0% |
| Energy | 13% | 0% |
| Consumer, Non-cyclical | 10% | 0% |
| Industrial | 4% | 0% |
| Utilities | 2% | 0% |
| Communications | 2% | 0% |

Other Price Risk

The Fund was not significantly exposed to other price risk as at June 30, 2020 and December 31, 2019, as it was invested primarily in fixed income securities.

YTM Capital Fixed Income Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

7. Financial Instruments and Risk Management (Continued)

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Fund. As at June 30, 2020 and December 31, 2019, the Fund did not have any significant exposure to foreign currencies.

| June 30, 2020 | Exposure | | | Impact if CAD strengthened or weakened by 5% in relation to other currencies | | |
|---|----------|----------|--------------|--|----------|--------------|
| | Currency | Monetary | Non-Monetary | Total | Monetary | Non-Monetary |
| US Dollar | \$ 9,748 | \$ 621 | \$ 10,369 | \$ 487 | \$ 31 | \$ 518 |
| % of Net Assets Attributable to Holders of Redeemable Units | 0 | 0 | 0 | 0 | 0 | 0 |

Monetary exposure is net of both long and short positions.

| December 31, 2019 | Exposure | | | Impact if CAD strengthened or weakened by 5% in relation to other currencies | | |
|---|----------|----------|--------------|--|----------|--------------|
| | Currency | Monetary | Non-Monetary | Total | Monetary | Non-Monetary |
| US Dollar | \$ – | \$ 6,541 | \$ 6,541 | \$ – | \$ 327 | \$ 327 |
| % of Net Assets Attributable to Holders of Redeemable Units | – | 0 | 0 | – | 0 | 0 |

Monetary exposure is net of both long and short positions.

8. (Decrease) Increase in Net Assets Attributable to Holders of Redeemable Units per Unit

The (decrease) increase in net assets attributable to holders of redeemable units per unit for the period ended June 30, 2020 and 2019 is calculated as follows:

| | Increase in Net Assets Attributable to Holders of Redeemable Units per Series | Weighted Average of Redeemable Units Outstanding During the Period | Increase in Net Assets Attributable to Holders of Redeemable Units per Unit |
|----------------------|---|--|---|
| June 30, 2020 | | | |
| Series A | \$ (15,214) | \$ 156,631 | \$ (0.10) |
| Series AF | (26,070) | 158,025 | (0.16) |
| Series F | 66,640 | 893,169 | 0.07 |
| Series FF | (155,673) | 1,367,624 | (0.11) |
| June 30, 2019 | | | |
| Series A | \$ 44 | \$ 7,400 | \$ 0.01 |
| Series AF | 389 | 67,254 | 0.01 |
| Series F | 44 | 7,400 | 0.01 |
| Series FF | 7,334 | 1,115,695 | 0.01 |

9. Income Tax

As at the tax year ended December 31, 2019, the Fund has non capital losses of \$nil available for carry-forward and \$nil capital losses available for carry-forward.

10. Subsequent Event

The impact of the coronavirus ("COVID-19") outbreak on the financial performance of the Fund's investments will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions. These developments and the impact of COVID-19 on the financial markets and the overall economy are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Fund's future investment results may be adversely affected.