

FORTIFIED INCOME ALTERNATIVE FUND



**THINK AHEAD.
STAY AHEAD.**

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MANAGEMENT'S RESPONSIBILITY STATEMENT

The accompanying financial statements have been prepared by Picton Mahoney Asset Management, the Manager of the Picton Mahoney Fortified Income Alternative Fund (the "Fund"). The Manager is responsible for all of the information and representations contained in these financial statements.

The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements. Management maintains appropriate processes to ensure that relevant and reliable financial information is produced.

The financial statements have been audited by PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on these financial statements. Their report is set out on the following page.

Picton Mahoney Asset Management

Toronto, Ontario

March 30, 2021

INDEPENDENT AUDITOR'S REPORT

To the Unitholders and Trustee of
Picton Mahoney Fortified Income Alternative Fund (the Fund)

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2020 and 2019 and its financial performance and its cash flows for the year ended December 31, 2020 and for the period from July 5, 2019 (commencement of operations) to December 31, 2019 in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2020 and 2019;
- the statements of comprehensive income for the year ended December 31, 2020 and for the period from July 5, 2019 (commencement of operations) to December 31, 2019;
- the statements of changes in net assets attributable to holders of redeemable units for the year ended December 31, 2020 and for the period from July 5, 2019 (commencement of operations) to December 31, 2019;
- the statements of cash flows for the year ended December 31, 2020 and for the period from July 5, 2019 (commencement of operations) to December 31, 2019; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

Other information

Management is responsible for the other information of the Fund. The other information comprises the 2020 Annual Management Report of Fund Performance of the Fund.

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

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

If, based on the work we have performed, we conclude that there is a 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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

INDEPENDENT AUDITOR'S REPORT

- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Patrizia Perruzza.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 30, 2021

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

STATEMENTS OF FINANCIAL POSITION

As at

	December 31, 2020 \$	December 31, 2019 \$
Assets		
Current assets		
Long positions at fair value*	574,512,639	127,217,600
Cash	28,136,430	5,769,791
Options purchased	630,266	139,227
Unrealized gain on foreign exchange forward contracts at fair value	6,081,727	1,199,998
Deposits with brokers for securities sold short	13,355,855	4,495,623
Due from Manager	-	76,939
Subscriptions receivable	827,218	64,850
Receivable for investments sold	616,754	-
Dividends receivable	32,450	-
Interest and other receivable	7,104,115	1,602,135
	<u>631,297,454</u>	<u>140,566,163</u>
Liabilities		
Current liabilities		
Short positions at fair value**	138,324,663	30,025,472
Options written	273,558	27,423
Unrealized loss on foreign exchange forward contracts at fair value	3,534	-
Management fee payable	334,045	80,329
Redemptions payable	39,197	-
Accrued liabilities	174,434	67,977
Payable for investments purchased	605,149	1,195,118
Interest payable	1,138,332	400,930
Distributions payable	81,783	19,688
	<u>140,974,695</u>	<u>31,816,937</u>
Net Assets Attributable to Holders of Redeemable Units	<u>490,322,759</u>	<u>108,749,226</u>
Net Assets Attributable to Holders of Redeemable Units per Class		
Class A	31,191,748	5,399,531
Class F	260,587,915	32,771,888
Class I	7,417,649	6,785,682
Class ETF	191,125,447	63,792,125
Number of Redeemable Units Outstanding		
Class A	3,042,114	532,900
Class F	24,993,629	3,216,845
Class I	701,015	662,915
Class ETF	18,300,000	6,250,000
Net Assets Attributable to Holders of Redeemable Units per Unit		
Class A	10.25	10.13
Class F	10.43	10.19
Class I	10.58	10.24
Class ETF***	10.44	10.21
	<u>568,358,400</u>	<u>127,439,810</u>
	<u>(140,321,821)</u>	<u>(30,038,686)</u>
	<u>10.48</u>	<u>10.19</u>

* Long positions, at cost

** Short positions, at cost

*** Closing Market Price (TSX)

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

Approved on behalf of the Manager

David Picton

Arthur Galloway



President



CFO

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended December 31, 2020 and for the period from July 5, 2019 (commencement of operations) to December 31, 2019

	2020 \$	2019 \$
Income		
Net gains (losses) on investments and derivatives		
Interest for distribution purposes	16,124,650	1,587,777
Dividends	1,101,024	47,108
Net realized gain (loss) on investments and options	11,657,386	266,187
Net realized gain (loss) on foreign exchange forward contracts	7,126,285	(323,625)
Change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts	13,520,765	1,094,678
Interest and borrowing expense	(3,491,891)	(460,751)
Dividend expense	(303,162)	-
Net gains (losses) on investments and derivatives	<u>45,735,057</u>	<u>2,211,374</u>
Other income		
Securities lending income	1,399	183
Foreign currency gain (loss) on cash and other assets and liabilities	1,037,036	(35,809)
Total Income	<u>46,773,492</u>	<u>2,175,748</u>
Expenses		
Transaction costs	6,488,400	78,590
Performance fees	3,839,200	167,513
Management fees	3,112,493	215,446
Harmonized sales tax	503,439	60,080
Administrative fees	222,238	41,235
Securityholder reporting fees	80,030	10,725
Audit fees	78,740	20,975
Legal fees	44,230	4,650
Independent Review Committee fees	7,026	3,465
Custody fees	551	-
Withholding taxes	239	-
Total Expense before Manager Absorption	<u>14,376,586</u>	<u>602,679</u>
Less: Expenses Absorbed by Manager	<u>(4,082,399)</u>	<u>(266,229)</u>
Total Expense after Manager Absorption	<u>10,294,187</u>	<u>336,450</u>
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	<u>36,479,305</u>	<u>1,839,298</u>
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class		
Class A	1,875,489	52,214
Class F	21,273,073	474,499
Class I	519,434	388,963
Class ETF	12,811,309	923,622
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit		
Class F	1.10	0.27
Class F	1.41	0.34
Class I	0.80	0.42
Class ETF	0.97	0.33

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the year ended December 31, 2020 and for the period from July 5, 2019 (commencement of operations) to December 31, 2019

	2020 \$	2019 \$		2020 \$	2019 \$
Net Assets Attributable to Holders of Redeemable Units at Beginning of Year			Distributions to Holders of Redeemable Units		
Class A	5,399,531	-	Net investment income		
Class F	32,771,888	-	Class A	(584,271)	(29,326)
Class I	6,785,682	-	Class F	(5,334,452)	(210,568)
Class ETF	63,792,125	-	Class I	(221,704)	(146,326)
	<u>108,749,226</u>	<u>-</u>	Class ETF	(4,666,143)	(440,016)
				<u>(10,806,570)</u>	<u>(826,236)</u>
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units			From capital gains		
Class A	1,875,489	52,214	Class A	(808,091)	(7,199)
Class F	21,273,073	474,499	Class F	(6,823,405)	(43,333)
Class I	519,434	388,963	Class I	(195,407)	(12,820)
Class ETF	12,811,309	923,622	Class ETF	(5,127,585)	(82,784)
	<u>36,479,305</u>	<u>1,839,298</u>		<u>(12,954,488)</u>	<u>(146,136)</u>
Redeemable Unit Transactions			Return of capital		
Proceeds from redeemable units issued			Class A	(135)	(623)
Class A	25,677,120	5,451,544	Class F	(1,233)	(4,136)
Class F	231,481,014	32,653,021	Class I	(51)	(2,174)
Class I	5,900,000	22,806,240	Class ETF	(1,079)	(8,328)
Class ETF	146,238,188	63,399,631		<u>(2,498)</u>	<u>(15,261)</u>
	<u>409,296,322</u>	<u>124,310,436</u>	Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units		
Reinvestments of distributions to holders of redeemable units			Class A	25,792,217	5,399,531
Class A	956,623	24,974	Class F	227,816,027	32,771,888
Class F	6,796,345	181,522	Class I	631,967	6,785,682
Class I	417,162	140,695	Class ETF	127,333,322	63,792,125
Class ETF	-	-		<u>381,573,533</u>	<u>108,749,226</u>
	<u>8,170,130</u>	<u>347,191</u>	Net Assets Attributable to Holders of Redeemable Units at End of Year		
Redemption of redeemable units			Class A	31,191,748	5,399,531
Class A	(1,324,518)	(92,053)	Class F	260,587,915	32,771,888
Class F	(19,575,315)	(279,117)	Class I	7,417,649	6,785,682
Class I	(5,787,467)	(16,388,896)	Class ETF	191,125,447	63,792,125
Class ETF	(21,921,368)	-	Net Assets Attributable to Holders of Redeemable Units at End of Year	<u>490,322,759</u>	<u>108,749,226</u>
	<u>(48,608,668)</u>	<u>(16,760,066)</u>			
Net Increase (Decrease) from Redeemable Unit Transactions	<u>368,857,784</u>	<u>107,897,561</u>			

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

STATEMENTS OF CASH FLOWS

For the year ended December 31, 2020 and for the period from July 5, 2019 (commencement of operations) to December 31, 2019

	2020 \$	2019 \$		2020 \$	2019 \$
Cash Flows from Operating Activities			Distributions to holders of redeemable units, net of reinvested distributions		
Increase (decrease) in net assets attributable to holders of redeemable units	36,479,305	1,839,298		(15,531,331)	(620,754)
Adjustments for:			Proceeds from redeemable units issued	407,572,711	124,097,120
Unrealized foreign exchange (gain) loss on cash	(86,588)	49,308	Amount paid on redemption of redeemable units	(47,608,228)	(16,611,600)
Net realized (gain) loss on investments, options and foreign exchange forward contracts	(11,657,386)	(266,187)	Net Cash Generated (Used) by Financing Activities	344,433,152	106,864,766
Change in unrealized (appreciation) depreciation on investments, options and foreign exchange forward contracts	(13,520,765)	(1,094,678)	Unrealized foreign exchange gain (loss) on cash	86,588	(49,308)
(Increase) decrease in due from manager	76,939	(76,939)	Net increase (decrease) in cash	22,280,051	5,819,099
(Increase) decrease in interest and other receivables	(5,501,980)	(1,602,135)	Cash, beginning of year	5,769,791	-
(Increase) decrease in dividends receivable	(32,450)	-	Cash, End of Year	28,136,430	5,769,791
(Increase) decrease in deposits with brokers for securities sold short	(8,860,232)	(4,495,623)	Cash	28,136,430	5,769,791
Increase (decrease) in interest payable	737,402	400,930	Cash overdraft	-	-
Increase (decrease) in other payables and accrued liabilities	360,173	148,306	Net Cash (Overdraft)	28,136,430	5,769,791
Purchase of long positions and repurchases of investments sold short	(1,320,343,046)	(194,278,509)	Items classified as operating activities:		
Proceeds from sales of long positions and on investments sold short	1,000,195,527	98,330,562	Interest received, net of withholding tax	10,622,670	-
Net Cash Generated (Used) by Operating Activities	(322,153,101)	(101,045,667)	Dividends received, net of withholding tax	1,068,574	47,108
Cash Flows from Financing Activities			Interest and borrowing expense paid	(2,754,489)	(74,179)
			Dividends paid	(303,162)	-

Net of non-cash transfers and switches of \$961,243 (2019 - \$148,466)

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2020

CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
LONG POSITIONS (117.4%)					USD	6,920,000	Cenovus Energy Inc. 3.800%, 2023-09-15	9,281,103	9,161,761
Canadian Equities (4.4%)					USD	6,750,000	Cenovus Energy Inc. 5.375%, 2025-07-15	9,448,732	9,702,990
Energy (0.4%)					CAD	3,331,000	Chemtrade Logistics Income Fund 5.000%, 2023-08-31	2,814,508	2,996,401
	105,000	Husky Energy Inc.	1,648,725	1,806,000	CAD	4,900,000	Enbridge Inc. 6.625%, 2078-04-12	5,246,924	5,607,269
Financials (4.0%)					USD	8,600,000	First Quantum Minerals Ltd. 7.250%, 2023-04-01	11,583,398	11,309,187
	118,000	Canadian Imperial Bank of Commerce, Preferred Series 45	2,242,741	2,878,020	CAD	3,050,000	Inter Pipeline Ltd. 6.875%, 2079-03-26	3,023,687	3,202,475
	97,200	Element Financial Corp., Preferred Series C	2,129,451	2,381,400	CAD	7,075,000	Inter Pipeline Ltd. 6.625%, 2079-11-19	6,867,441	7,294,553
	183,500	Element Financial Corp., Preferred Series E	3,933,852	4,481,070	USD	5,675,000	Intertape Polymer Group Inc. 7.000%, 2026-10-15	7,884,825	7,693,167
	78,000	Element Fleet Management Corp., Preferred Series A	1,731,837	1,910,220	CAD	4,400,000	Keyera Corp. 6.875%, 2079-06-13	4,347,607	4,772,316
	50,700	Element Fleet Management Corp., Preferred Series I	1,102,599	1,271,049	CAD	3,650,000	Mattamy Group Corp. 4.625%, 2028-03-01	3,572,027	3,775,469
	4,500	Manulife Financial Corp., Preferred Series 1-7	89,021	106,875	USD	10,180,000	MDC Partners Inc. 6.500%, 2024-05-01	12,447,902	13,167,221
	13,100	Manulife Financial Corp., Preferred Series 2	297,521	319,509	USD	825,000	Norbord Inc. 6.250%, 2023-04-15	1,146,214	1,144,219
	5,000	Sun Life Financial Inc., Preferred Series 12R	90,588	105,400	USD	9,980,000	Norbord Inc. 5.750%, 2027-07-15	13,952,304	13,713,616
	21,800	Sun Life Financial Inc., Preferred Series 2	505,568	541,730	CAD	5,750,000	NuVista Energy Ltd. 6.500%, 2023-03-02	4,449,418	4,263,385
	107,100	Sun Life Financial Inc., Preferred Series 5	2,552,943	2,597,175	CAD	10,175,000	Parkland Corp. 5.750%, 2024-09-16	10,341,901	10,505,688
	70,000	Toronto-Dominion Bank, Preferred Series 16	1,414,475	1,709,050	CAD	4,500,000	Parkland Corp. 6.500%, 2027-01-21	4,676,175	4,871,250
	54,100	Toronto-Dominion Bank, Preferred Series 22	1,086,546	1,360,074	CAD	8,500,000	Parkland Corp. 6.000%, 2028-06-23	8,500,000	9,137,500
			17,177,142	19,661,572	CAD	8,700,000	Russel Metals Inc. 5.750%, 2025-10-27	8,700,000	9,118,688
		Total Canadian Equities - Long	18,825,867	21,467,572	CAD	5,575,000	Russel Metals Inc. 6.000%, 2026-03-16	5,446,706	5,835,167
Canadian Debt (47.2%)					USD	2,200,000	Suncor Energy Inc. 7.000%, 2028-11-15	3,466,260	3,655,301
Asset-Backed Securities (2.2%)					CAD	10,270,000	Superior Plus LP 5.250%, 2024-02-27	10,341,106	10,616,613
CAD	4,929,000	Bicentennial Trust 2.140%, 2021-10-18	4,941,323	4,937,872	USD	8,336,000	Superior Plus LP 7.000%, 2026-07-15	11,876,656	11,376,734
CAD	3,168,000	Bicentennial Trust 2.140%, 2022-01-17	3,049,200	3,091,651	USD	500,000	Telesat Canada / Telesat LLC 4.875%, 2027-06-01	671,995	661,285
CAD	2,640,000	Bicentennial Trust 2.140%, 2022-03-17	2,435,400	2,531,496	USD	6,650,000	Telesat Canada / Telesat LLC 6.500%, 2027-10-15	9,081,624	8,865,198
			10,425,923	10,561,019	USD	3,325,000	Trulieve Cannabis Corp. 9.750%, 2024-06-18	4,580,320	4,469,029
Corporate Bonds (45.0%)					CAD	11,250,000	Videotron Ltd. 4.500%, 2030-01-15	11,407,282	12,231,094
CAD	9,149,000	AutoCanada Inc. 8.750%, 2025-02-11	9,264,765	9,739,873				215,925,459	220,517,302
USD	800,000	Bank of Nova Scotia 0.432%, 2085-08-31	854,984	843,770	Total Canadian Debt - Long				
USD	4,000,000	Bausch Health Cos Inc. 7.000%, 2024-03-15	5,552,363	5,247,602				226,351,382	231,078,321
USD	600,000	Canadian Imperial Bank of Commerce 0.625%, 2084-07-31	653,633	643,648	Global Equities (0.5%)				
CAD	6,225,000	Canadian Western Bank 6.000%, 2081-04-30	6,293,961	6,433,102	United States Equities (0.5%)				
CAD	8,070,000	Cascades Inc. 5.125%, 2025-01-15	8,149,638	8,461,731		187,500	Federal National Mortgage Association	587,315	570,911

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2020

CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
	161,000	Federal National Mortgage Association, Preferred	2,271,541	1,759,877					
			2,858,856	2,330,788					
		Total Global Equities - Long	2,858,856	2,330,788					
		Global Debt (65.2%)							
		United States Bonds (44.8%)							
USD	4,390,000	At Home Holding III Inc. 8.750%, 2025-09-01	6,132,671	6,064,753	USD	5,425,000	Parsley Energy LLC / Parsley Finance Corp. 4.125%, 2028-02-15	7,386,042	7,269,976
USD	4,150,000	Blue Cube Spinco LLC 10.000%, 2025-10-15	6,019,544	5,604,321	USD	1,250,000	Performance Food Group Inc. 6.875%, 2025-05-01	1,804,742	1,710,941
USD	5,460,000	Brookfield Property REIT Inc. 5.750%, 2026-05-15	6,286,917	6,864,736	USD	2,000,000	Picasso Finance Sub Inc. 6.125%, 2025-06-15	2,789,434	2,730,052
USD	13,650,000	Builders FirstSource Inc. 6.750%, 2027-06-01	19,349,052	18,884,938	USD	2,360,000	Schweitzer-Mauduit International Inc. 6.875%, 2026-10-01	3,260,143	3,197,739
USD	4,000,000	Carriage Services Inc. 6.625%, 2026-06-01	5,566,757	5,464,487	USD	2,850,000	TransDigm Inc. 6.500%, 2024-07-15	3,810,063	3,702,044
USD	4,400,000	Centene Corp. 4.625%, 2029-12-15	6,220,306	6,230,647	USD	6,450,000	Tutor Perini Corp. 6.875%, 2025-05-01	8,366,196	8,063,219
USD	1,704,000	Cincinnati Bell Inc. 7.000%, 2024-07-15	2,430,970	2,264,492	USD	3,200,000	Vector Group Ltd. 6.125%, 2025-02-01	4,215,393	4,152,809
USD	7,950,000	Cincinnati Bell Inc. 8.000%, 2025-10-15	11,259,059	10,818,282	USD	5,541,000	WPX Energy Inc. 8.250%, 2023-08-01	8,230,033	8,059,980
USD	6,050,000	Cleveland-Cliffs Inc. 5.750%, 2025-03-01	7,728,596	7,837,761	USD	4,050,000	WPX Energy Inc. 5.250%, 2024-09-15	5,645,678	5,633,201
USD	8,950,000	Cleveland-Cliffs Inc. 9.875%, 2025-10-17	13,352,957	13,426,197	USD	3,290,000	XPO Logistics Inc. 6.125%, 2023-09-01	4,394,866	4,272,666
USD	2,200,000	Covanta Holding Corp. 5.000%, 2030-09-01	3,038,924	3,002,322	USD	820,000	XPO Logistics Inc. 6.250%, 2025-05-01	1,135,778	1,126,180
USD	6,400,000	CSC Holdings LLC 7.500%, 2028-04-01	9,540,579	9,184,085				222,571,700	219,620,728
USD	2,710,000	Encompass Health Corp. 5.750%, 2025-09-15	3,688,709	3,577,692			International Bonds (20.4%)		
USD	4,675,000	Freeport Minerals Corp. 9.500%, 2031-06-01	7,922,138	8,651,010	CAD	5,000,000	Aviva PLC 4.000%, 2030-10-02	5,000,935	5,277,962
USD	3,500,000	Horizon Therapeutics USA Inc. 5.500%, 2027-08-01	4,984,499	4,795,695	USD	2,620,000	Bank of Scotland PLC 0.563%, 2049-12-31	2,949,127	3,112,571
USD	1,850,000	Icahn Enterprises LP 6.750%, 2024-02-01	2,565,134	2,402,810	USD	9,280,000	Barclays Bank PLC 0.563%, 2049-12-31	10,389,931	10,608,695
USD	860,000	L Brands Inc. 5.625%, 2023-10-15	1,184,595	1,182,605	USD	10,150,000	Barclays Bank PLC 0.563%, 2049-12-31	11,085,760	11,593,110
USD	4,200,000	L Brands Inc. 6.875%, 2025-07-01	5,873,045	5,817,867	USD	725,000	Dana Financing Luxembourg Sarl 5.750%, 2025-04-15	989,678	961,172
USD	3,000,000	L Brands Inc. 9.375%, 2025-07-01	4,742,585	4,705,834	USD	4,825,000	Dana Financing Luxembourg Sarl 6.500%, 2026-06-01	6,673,561	6,453,629
USD	1,120,000	Levi Strauss & Co. 5.000%, 2025-05-01	1,579,381	1,464,334	USD	1,500,000	Hongkong & Shanghai Banking Corp. Ltd. 0.448%, 2049-12-31	1,524,783	1,690,396
USD	4,300,000	Live Nation Entertainment Inc. 4.875%, 2024-11-01	5,635,084	5,554,890	USD	6,550,000	HSBC Bank PLC 0.600%, 2049-12-31	6,801,263	7,392,731
USD	1,051,000	Meritor Inc. 6.250%, 2024-02-15	1,458,772	1,369,796	USD	520,000	HSBC Bank PLC 0.750%, 2049-12-31	517,290	585,373
USD	8,100,000	Navistar International Corp. 9.500%, 2025-05-01	11,941,229	11,602,866	USD	5,350,000	HSBC Bank PLC 0.750%, 2049-12-31	5,703,916	6,031,964
USD	1,850,000	NRG Energy Inc. 7.250%, 2026-05-15	2,700,761	2,490,063	USD	4,000,000	Lloyds Bank PLC 0.308%, 2049-12-31	4,372,414	4,723,682
USD	320,000	Pactiv LLC 7.950%, 2025-12-15	477,222	468,279	USD	1,750,000	Lloyds Bank PLC 0.438%, 2049-12-31	1,896,690	2,070,089
USD	4,575,000	Pactiv LLC 8.375%, 2027-04-15	6,750,402	6,811,005	USD	8,000,000	Natwest Group PLC 0.625%, 2049-12-31	9,089,539	9,478,552
USD	9,425,000	Parsley Energy LLC / Parsley Finance Corp. 5.625%, 2027-10-15	13,103,444	13,160,154	GBP	1,450,000	Standard Chartered PLC 0.248%, 2049-12-31	2,130,896	2,242,018

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2020

CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
Foreign Currency Forward Contracts (1.2%)				
		Total Currency Hedge - Refer to Appendix B		6,078,193
		TOTAL INVESTMENT PORTFOLIO (90.3%)	428,036,579	442,622,877
		Other Assets Net of Liabilities (9.7%)		47,699,882
		TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (100.0%)		490,322,759

*CCY denotes local currency of debt security

APPENDIX A

OPTIONS (0.0%)

Issuer	Option Type	Number of Options	Strike \$	Expiry	Average Cost \$	Fair Value \$
Euro STOXX Banks	Call Option	327	\$85	December, 2021	15,712	103,220
SPDR Energy Select Sector	Call Option	1,834	\$45	January, 2021	89,939	10,514
SPDR Energy Select Sector	Call Option	5,900	\$50	March, 2021	286,714	176,641
					<u>392,365</u>	<u>290,375</u>
iShares iBoxx High Yield Corp. Bond	Put Option	3,538	\$84	January, 2021	227,755	42,820
iShares iBoxx High Yield Corp. Bond	Put Option	3,538	\$85	January, 2021	206,026	58,596
iShares iBoxx Invest Grade Corp. Bond	Put Option	1,774	\$133	January, 2021	133,109	41,811
iShares iBoxx Invest Grade Corp. Bond	Put Option	3,492	\$134	January, 2021	302,685	108,997
S&P E-Mini 2nd Week	Put Option	180	\$3,350	January, 2021	246,312	22,932
US Bond Futures	Put Option	271	\$168	January, 2021	147,797	64,735
					<u>1,263,684</u>	<u>339,891</u>
Total Purchased Options					1,656,049	630,266
iShares iBoxx High Yield Corp. Bond	Written Call Option	(1,742)	\$87	January, 2021	(96,380)	(137,597)
					<u>(96,380)</u>	<u>(137,597)</u>
iShares iBoxx High Yield Corp. Bond	Written Put Option	(4,770)	\$77	January, 2021	(134,298)	(28,130)
iShares iBoxx High Yield Corp. Bond	Written Put Option	(3,592)	\$82	January, 2021	(135,968)	(27,457)
iShares iBoxx Invest Grade Corp. Bond	Written Put Option	(1,746)	\$128	January, 2021	(70,722)	(21,346)
iShares iBoxx Invest Grade Corp. Bond	Written Put Option	(1,746)	\$129	January, 2021	(73,689)	(16,683)
iShares iBoxx Invest Grade Corp. Bond	Written Put Option	(1,774)	\$130	January, 2021	(88,549)	(21,471)
S&P E-Mini 2nd Week	Written Put Option	(180)	\$3,200	January, 2021	(136,016)	(15,479)
US Bond Futures	Written Put Option	(271)	\$162	January, 2021	(25,030)	(5,395)
					<u>(664,272)</u>	<u>(135,961)</u>
Total Written Options					(760,652)	(273,558)

APPENDIX B

FOREIGN EXCHANGE FORWARD CONTRACTS (1.2%)

Purchased Currency	Sold Currency	Forward Rate	Maturity Date	Fair Value (\$)	Counterparty	Credit Rating
CAD \$270,419,007	USD \$207,814,000	1.30126	2021-02-11	5,699,460	Canadian Imperial Bank of Commerce	A-1
CAD \$10,377,360	USD \$8,000,000	1.29717	2021-02-11	186,740	Canadian Imperial Bank of Commerce	A-1
CAD \$12,857,300	USD \$10,000,000	1.28573	2021-02-11	119,071	Canadian Imperial Bank of Commerce	A-1
CAD \$2,211,843	USD \$1,704,000	1.29803	2021-02-11	41,240	Canadian Imperial Bank of Commerce	A-1
CAD \$12,772,000	USD \$10,000,000	1.27720	2021-02-11	33,806	Canadian Imperial Bank of Commerce	A-1
CAD \$894,357	USD \$701,000	1.27583	2021-02-11	1,410	Canadian Imperial Bank of Commerce	A-1
Unrealized gain on foreign exchange forward contracts at fair value				6,081,727		
USD \$818,000	CAD \$1,045,519	0.78239	2021-02-11	(3,534)	Canadian Imperial Bank of Commerce	A-1
Unrealized loss on foreign exchange forward contracts at fair value				(3,534)		
Net unrealized gain (loss) on foreign exchange forward contracts at fair value				6,078,193		

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

FUND SPECIFIC NOTES

As at December 31, 2020 and December 31, 2019

1. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following tables illustrate the classifications of the Fund's financial instruments within the fair value hierarchy as at December 31, 2020 and 2019.

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2020				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities - Long	23,798,360	-	-	23,798,360
Bonds - Long	-	550,714,279	-	550,714,279
Options - Long	630,266	-	-	630,266
Equities - Short	(20,616,023)	-	-	(20,616,023)
Bonds - Short	-	(117,708,640)	-	(117,708,640)
Options - Short	(273,558)	-	-	(273,558)
Forward Contracts, net	-	6,078,193	-	6,078,193
Total	3,539,045	439,083,832	-	442,622,877

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2019				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities - Long	3,431,192	-	-	3,431,192
Bonds - Long	-	123,786,408	-	123,786,408
Options - Long	139,227	-	-	139,227
Bonds - Short	-	(30,025,472)	-	(30,025,472)
Options - Short	(27,423)	-	-	(27,423)
Forward Contracts, net	-	1,199,998	-	1,199,998
Total	3,542,996	94,960,934	-	98,503,930

2. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

As at December 31, 2020 and 2019

The following table shows the net impact of the Fund's statement of financial position if all set-off rights were exercised.

Financial Assets and Liabilities	Amounts Eligible for Offset			Net \$
	Gross Assets / (Liabilities) \$	Financial Instruments \$	Collateral received/paid \$	
December 31, 2020				
Derivative assets - Foreign exchange forward contracts	6,081,727	(3,534)	-	6,078,193
Derivative liabilities - Foreign exchange forward contracts	(3,534)	3,534	-	-
December 31, 2019				
Derivative assets - Foreign exchange forward contracts	1,199,998	-	-	1,199,998
Derivative liabilities - Foreign exchange forward contracts	-	-	-	-

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

FUND SPECIFIC NOTES (CONTINUED)

3. SECURITIES LENDING TRANSACTIONS

The Fund has entered into a securities lending program with its custodian, RBC Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral consists primarily of fixed income securities. As at December 31, 2020, there was \$0 (Collateral - \$0) of securities on loan (December 31, 2019 - \$743,080 (Collateral - \$757,942) of securities on loan.

Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian is entitled to receive. For the year ended December 31, 2020 and for the period from July 5, 2019 (commencement of operations) to December 31, 2019, securities lending income were as follows:

	December 31, 2020 (\$)	December 31, 2019 (\$)
Gross securities lending income	2,152	281
Securities lending charges	(753)	(98)
Net securities lending income	1,399	183
Withholding taxes on securities lending income	(239)	-
Net securities lending income received by the Fund	1,160	183
Security lending charges percentage of gross securities lending income	35%	35%

4. OTHER PRICE RISK

Using Beta as a measure of the relationship of the Fund's performance against the blended index consisting of 75% ICE BofAML Global High Yield Index (Hedged to CAD) and 25% BofAML Global Corporate Index (Hedged to CAD) (the Index), if the Index were to increase or decrease by 10%, net assets would have increased or decreased by approximately \$67,695,159 (December 31, 2019 - \$10,108,971). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

The COVID-19 (coronavirus disease) pandemic has caused volatility in global financial markets as well as significant disruptions to global business activity. The continued impact of unanticipated market disruptions, including COVID-19 is uncertain and may exacerbate pre-existing political, social or economic risk, and may disproportionately affect certain issuers, industries or types of securities. Such unanticipated market and economic disruptions, including COVID-19, may be short-term or may last for an extended period of time, and could have effects that cannot necessarily be presently foreseen.

5. CURRENCY RISK

Foreign currencies to which the Fund had exposure as at December 31, 2020 and 2019 were as follows:

FINANCIAL INSTRUMENTS					
December 31, 2020 Currency	Monetary \$	Non-Monetary \$	Forward Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	321,847,133	(15,720,235)	(302,448,874)	3,678,024	0.8%
British Pound	2,239,222	-	-	2,239,222	0.5%
Euro	(5,533)	-	-	(5,533)	0.0%
Net Exposure	324,080,822	(15,720,235)	(302,448,874)	5,911,713	1.3%

FINANCIAL INSTRUMENTS					
December 31, 2019 Currency	Monetary \$	Non-Monetary \$	Forward Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	62,005,935	180,248	(61,647,495)	538,688	0.5%
British Pound	1,089,891	-	-	1,089,891	1.0%
Euro	(16,500)	-	-	(16,500)	0.0%
Net Exposure	63,079,326	180,248	(61,647,495)	1,612,079	1.5%

If the Canadian dollar had strengthened or weakened by 5% in relation to all other currencies held in the investment portfolio, net assets would have decreased or increased by approximately \$295,586 (December 31, 2019 - \$80,604). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

FUND SPECIFIC NOTES (CONTINUED)

6. INTEREST RATE RISK

If the yield curve had shifted in parallel by 1%, with all other variables held constant, net assets will increase or decrease by \$4,794,850 (December 31, 2019 - \$1,867,104). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

As at December 31, 2020 and 2019, the Fund's exposure to debt instruments by maturity were as follows:

Debt Instruments by Maturity Date	December 31, 2020 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	4,937,872	-	4,937,872
1-3 years	48,013,352	-	48,013,352
3-5 years	192,089,226	-	192,089,226
Greater than 5 years	305,673,829	(117,708,640)	187,965,189
Total	550,714,279	(117,708,640)	433,005,639

Debt Instruments by Maturity Date	December 31, 2019 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	1,406,930	(562,483)	844,447
1-3 years	13,301,880	(1,301,756)	12,000,124
3-5 years	32,949,028	(2,074,124)	30,874,904
Greater than 5 years	76,128,570	(26,087,109)	50,041,461
Total	123,786,408	(30,025,472)	93,760,936

7. CREDIT RISK

The following table below shows debt as a percentage of net assets attributable to holders of redeemable units held under each credit rating. All counterparties to derivative contracts had a credit rating of A- or higher as at December 31, 2020 and 2019. All cash is held with a financial institution with a minimum credit rating of A+.

Bond Ratings	December 31, 2020			Bond Ratings	December 31, 2019		
	Net	Long	Short		Net	Long	Short
AAA	-1.05%	0.00%	-1.05%	AAA	0.44%	0.44%	0.00%
A	0.34%	0.34%	0.00%	AA+	0.44%	0.44%	0.00%
A-	2.08%	2.08%	0.00%	A	1.43%	1.43%	0.00%
BBB+	0.75%	0.75%	0.00%	A-	0.64%	0.64%	0.00%
BBB	3.66%	3.66%	0.00%	BBB+	0.14%	0.14%	0.00%
BBB-	13.90%	13.90%	0.00%	BBB	4.59%	4.59%	0.00%
BB+	15.73%	17.42%	-1.69%	BBB-	9.17%	10.57%	-1.40%
BB	18.98%	22.54%	-3.56%	BB+	17.49%	18.53%	-1.03%
BB-	7.14%	14.65%	-7.51%	BB	22.88%	23.94%	-1.06%
B+	0.35%	8.05%	-7.70%	BB-	18.40%	21.31%	-2.91%
B	11.33%	12.42%	-1.09%	B+	-2.19%	5.24%	-7.43%
B-	5.70%	6.55%	-0.85%	B	1.05%	6.76%	-5.71%
CCC+	5.74%	6.30%	-0.56%	B-	9.36%	15.37%	-6.01%
CCC	1.60%	1.60%	0.00%	CCC+	3.64%	5.51%	-1.87%
NR	2.04%	2.04%	0.00%	CCC	2.01%	2.32%	-0.31%
				NR	2.32%	2.32%	0.00%

The above credit ratings are obtained and disclosed from the rating services in the following hierarchical order: 1) Standard & Poor's; 2) Moody's; 3) Dominion Bond Rating Service, using first available.

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

FUND SPECIFIC NOTES (CONTINUED)

8. LIQUIDITY RISK

The tables below categorize the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amount in the tables are the contractual undiscounted cash flows.

December 31, 2020 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	138,324,663	-	-	138,324,663
Distributions payable	81,783	-	-	81,783
Redemptions payable	39,197	-	-	39,197
Accrued liabilities and other payables	-	2,251,960	-	2,251,960
Derivative liabilities	277,092	-	-	277,092

December 31, 2019 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	30,025,472	-	-	30,025,472
Distributions payable	19,688	-	-	19,688
Accrued liabilities and other payables	-	1,744,354	-	1,744,354
Derivative liabilities	27,423	-	-	27,423

9. CONCENTRATION RISK

The table below summarizes the Fund's concentration risk as a percentage of net assets as at December 31, 2020 and 2019

Jurisdiction	% of Net Assets	
	December 31, 2020	December 31, 2019
LONG POSITIONS	118.6%	118.3%
Corporate Bonds	110.2%	113.9%
Canada	45.0%	48.9%
United States	44.8%	38.7%
International	20.4%	26.3%
Asset-Backed Securities	2.2%	0.0%
Canada	2.2%	0.0%
Canadian Equities	4.4%	3.2%
Financials	4.0%	3.0%
Energy	0.4%	0.0%
Communication Services	0.0%	0.2%
United States Equities	0.5%	0.0%
Financials	0.5%	0.0%
Derivatives	1.3%	1.2%
SHORT POSITIONS	-28.3%	-27.7%
Corporate Bonds	-23.0%	-27.7%
Canada	-1.7%	-3.3%
United States	-20.8%	-21.9%
International	-0.5%	-2.5%
Government Bonds	-1.0%	0.0%
Canada	-1.0%	0.0%
Canadian Equities	-0.5%	0.0%
Financials	-0.5%	0.0%
International Equities	-3.7%	0.0%
Index Equivalents	-3.7%	0.0%
Derivatives	-0.1%	0.0%

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

FUND SPECIFIC NOTES (CONTINUED)

10. FUND UNIT TRANSACTIONS

For the year ended December 31, 2020 and for the period from July 5, 2019 (commencement of operations) to December 31, 2019.

	2020				2019			
	Class A	Class F	Class I	Class ETF	Class A	Class F	Class I	Class ETF
Units issued and outstanding, beginning of year	532,900	3,216,845	662,915	6,250,000	-	-	-	-
Units issued	2,545,379	23,022,977	565,618	14,320,000	539,566	3,226,484	2,265,660	6,250,000
Units reinvested	93,662	656,446	40,043	-	2,468	17,885	13,885	-
Units redeemed	(129,827)	(1,902,639)	(567,561)	(2,270,000)	(9,134)	(27,524)	(1,616,630)	-
Units issued and outstanding, end of year	3,042,114	24,993,629	701,015	18,300,000	532,900	3,216,845	662,915	6,250,000
Weighted average number of units held during the year	1,703,577	15,108,459	652,985	13,200,246	193,409	1,404,624	917,263	2,802,586

11. COMMISSIONS

For the year ended December 31, 2020 and for the period from July 5, 2019 (commencement of operations) to December 31, 2019 (in \$000)

	2020	2019
Brokerage commissions	6,488	79
Soft Dollar commissions	119	24

12. TAX LOSS CARRY FORWARDS

As at December 31 (in \$000)

	2020
Net capital losses carry forward	-
Non-capital losses carry forward	-

13. LEVERAGE

During the year January 1 to December 31, 2020, the Fund's aggregate exposure reached a low of 20.73% and a high of 82.95% of the Fund's NAV. As at December 31, 2020, the Fund's aggregate exposure was 45.43% of the Fund's NAV. The primary source of leverage was short positions in fixed income securities.

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2020 and December 31, 2019

1. GENERAL INFORMATION

Picton Mahoney Fortified Income Alternative Fund (the "Fund") is an open-ended mutual fund trust established under the laws of the Province of Ontario pursuant to a trust agreement dated September 19, 2018 and as amended and restated as of June 26, 2019 (the "Trust Declaration"). The Fund commenced operations on July 5, 2019. Picton Mahoney Asset Management acts as manager (the "Manager"), portfolio advisor (the "Portfolio Advisor"), and trustee (the "Trustee") for the Fund pursuant to the Trust Declaration. The Manager is responsible for the day-to-day business of the Fund, including the management of the Fund's investment portfolio. The address of the Fund's registered office is 33 Yonge Street, Suite 830, Toronto, Ontario, M5E 1G4. The financial statements are presented in Canadian dollars (CAD). These financial statements were authorized for issue by the Manager on March 30, 2021.

On July 5, 2019, 5,001 Class A units, 5,000 Class F units, and 5,000 Class I units of the Fund were issued to the Manager of the Fund, for cash consideration of CAD \$10.00 per unit. These units are not redeemable until an additional \$500,000 has been invested by other investors in the aggregate in the Fund.

The Fund may issue an unlimited number of classes or series and may issue an unlimited number of units of each class or series. The Fund has created Class A, Class F, Class I, and Class ETF units.

Class A units are available to all investors. Class F units are available to investors who are enrolled in a dealer sponsored fee for service or wrap program and who are subject to an annual asset based fee rather than commissions on each transaction or, at the discretion of the Manager, any other investor for whom the Manager does not incur distribution costs. Class I units are available to institutional investors or to other investors on a case-by-case basis, all at the discretion of the Manager. Class ETF units are listed and issued and sold on a continuous basis and will be available to investors that purchase such units on the TSX through a registered broker or dealer in the province or territory where the investor resides.

As at December 31, 2020, the Fund currently has 4 Classes of Units: Class A, Class F, and Class I and Class ETF. As at December 31, 2020, the Manager holds 5 units of Class A and 752 units of Class I.

The investment objective of the Fund is to maximize total return to unitholders through income and capital appreciation by investing primarily in global fixed income securities while mitigating capital loss through shorting and other hedging strategies. The Fund invests its assets primarily in North America but can invest up to 100% of its assets globally in long and short positions in high yield bonds, investment grade corporate bonds, government bonds, emerging market bonds, loans, convertible bonds, convertible debentures, preferred shares, options, futures, forward contracts, swaps, swaptions, short-term debt instruments, distressed debt, collateral loan obligations, mortgage-backed securities, cash and cash equivalents, equities, ETFs and other mutual funds. The Fund may engage in borrowing for investment purposes.

The Fund is considered an "alternative fund" meaning it has received exemptions from National Instrument 81-102 - Investment Funds ("NI 81-102") to permit it to use strategies generally prohibited by conventional mutual funds, such as the ability to borrow, up to 50% of the Fund's net asset value, cash to use for investment purposes; sell, up to 50% of the Fund's net asset value, securities short (the combined level of cash borrowing and short selling is limited to 50% in aggregate); and leverage up to 300% of the Fund's net asset value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Fund.

(a) Basis of Preparation

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

(b) Classification

(i) Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

(ii) Liabilities

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 value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss. As such, the Fund classifies all of its investment portfolio as financial assets or liabilities as fair value through profit or loss. The Fund's policy requires the Manager to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

(c) Fair Value Measurements

The Fund utilizes a three tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The three levels of the fair value hierarchy are as follows:

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

Fair values are classified as Level 1 when the related security or derivative is actually 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 value requires the use of significant unobservable inputs, in which case it is classified as Level 3. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

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(d) Valuation of Investments and Derivatives

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets, which include equities, bonds, options, and warrants are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

Securities not listed on any recognized public securities exchange are valued in the same manner based on available public quotations from recognized dealers in such securities. If market quotations are not readily available, securities will be valued at fair value as determined in good faith by or under the supervision of the Manager. The cost of investments represents the amount paid for each security and is determined on an average cost basis.

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

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Investment fund units held as investments are valued at their respective Net Asset Values on the relevant valuation dates as reported by the investment fund manager, as these values are the most readily and regularly available.

Warrants, options, and futures that are not listed on any recognized public securities exchange are valued using the Black-Scholes model and based on observable market inputs.

Foreign exchange forward contracts are valued on each valuation day based on the difference between the value of the contract on the date the contract originated and the value of the contract on the valuation day.

The difference between fair value and the average cost is shown as the change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts.

Other financial assets (held for collection) and other financial liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, where appropriate at the contract's effective interest rate. Due to their short-term nature, the fair value of other financial assets and financial liabilities carried at amortized cost approximates their carrying amount.

Receivable for investments sold and payable for investments purchased

Receivable for investments sold and payable for investments purchased represent trades that have been contracted for but not yet settled or delivered

on the statements of financial position dates. These amounts are recognized initially at fair value and subsequently measured at amortized cost. At each reporting date, the Funds measure the loss allowance on receivable for investments sold and payable for investments purchased at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Funds measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganization, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by the Manager as any contractual payment which is more than 30 days past due or a significant deterioration in a counterparty credit quality. Any contractual payment which is more than 90 days past due is considered credit impaired.

(e) Cash

Cash is comprised of cash on demand deposit with a Canadian financial institution and is stated at fair value.

(f) Investment Transactions and Income Recognition

Investment transactions are accounted for as of the trade date. Expenses are recorded on an accrual basis. Dividend income is recorded on the ex-dividend date. The interest for distribution purposes shown on the statement of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis. Realized gains and losses on sale of investments and unrealized appreciation and depreciation in investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Income, common expenses and gains (losses) are allocated to each Class of the Fund based on the Class' prorated share of total Net Asset Value. Interest and borrowing expense and dividend expense on short sales are included within net gains (losses) on investments and derivatives.

Distributions received from investment fund holdings are recognized by the Fund in the same form in which they were received from the underlying funds and are recognized on the distribution date.

(g) Valuation of Fund Units

The Fund's net asset value is calculated at the close of regular trading, normally 4:00pm (Eastern Time), on a day the Toronto Stock Exchange ("TSX") is open (a "Valuation Day"). The net asset value of the Fund will be calculated in Canadian dollars and the units of the Fund are denominated in Canadian dollars.

The Fund's units are divided into the Class A, Class F, Class I, and Class ETF units. Each class is divided into units of equal value. When you invest in the Fund, you are purchasing units of a specific class of the Fund.

A separate net asset value per unit is calculated for each class of units (the "Unit Price"). The Unit Price is the price used for all purchases, switches, reclassifications and redemptions of units of that class (including purchases made on the reinvestment of distributions). The price at which units are issued or redeemed is based on the next applicable Unit Price determined after the receipt of the purchase or redemption order.

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The Unit Price of each class of the Fund is calculated by taking the fair value of all the investments and other assets allocated to the class and subtracting the liabilities allocated to that class. This gives us the net asset value for the class. The Unit Price for the class is obtained by dividing the net asset value for the class by the total number of units of the class that investors in a Fund are holding.

Although the purchases and redemptions of units are recorded on a class basis, the assets attributable to all of the class of a Fund are pooled to create one fund for investment purposes.

Each class pays its proportionate share of fund costs in addition to its management fee and performance fee. The difference in fund costs, management fees and performance fees between each class means that each class has a different Unit Price.

Any purchase, switch, reclassification or redemption instruction received after 4:00pm (Eastern Time) on Valuation Day will be processed on the next Valuation Day.

ETF units of the Fund are available for purchase or sale on the TSX through a registered broker or dealer. The cut-off time for ETF units of the Fund is 2:00pm (Eastern Time) on a trading day.

(h) Foreign Currency Translation

The Fund's functional and presentation currency is Canadian dollars. The fair value of foreign investments and other assets and liabilities are translated into Canadian dollars at the exchange rates prevailing at the close of each valuation day. Purchases and sales of foreign securities and the related income and expenses are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions.

Foreign exchange gains and losses relating to cash and other assets and liabilities are presented as 'Foreign currency gain (loss) on cash and other assets and liabilities' and those relating to other financial assets and liabilities are presented within 'Net realized gain (loss) on investments, options, and foreign exchange forward contracts and 'Change in unrealized appreciation (depreciation) on investments, options, and foreign exchange forward contracts.

(i) 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 of each Class of the Fund is determined by dividing the net increase in net assets attributable to holders of redeemable units from each Class of Units by the weighted average number of Units outstanding of that Class during the year.

(j) Transaction Costs

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 exchange, and transfer taxes and duties. Such costs are expensed and included in "Transaction costs" in the Statement of Comprehensive Income.

(k) Securities Lending Transactions

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty

and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the Statements of Comprehensive Income.

The Fund has entered into a securities lending program with their custodian, RBC Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or a permitted supranational agency as defined in National Instrument 81-102. Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian, RBC Investor Services Trust, is entitled to receive.

(l) Leverage

Leverage occurs when the Fund borrows money or securities, or uses derivatives, to generate investment exposure that would otherwise not be possible.

The Fund's aggregate exposure to its sources of leverage is calculated as the sum of the following: (i) the market value of short holdings; (ii) the amount of cash borrowed for investment purposes; and (iii) the notional value of the Fund's derivatives positions, excluding any derivatives used for hedging purposes. The Fund's exposure to leverage must not exceed 300% of the Fund's NAV.

The Fund has received exemptive relief from Canadian securities regulatory authorities from certain investment restrictions set out in NI 81-102 that would restrict the ability of the Fund to leverage their assets through borrowing, short sales and/or derivatives. Investment decisions may be made for the assets of the Fund that exceed the net asset value of the Fund. As a result, if these investment decisions are incorrect, the resulting losses will be more than if investments were made solely in an unleveraged long portfolio as is the case in most conventional equity mutual funds. In addition, leveraged investment strategies can also be expected to increase a Fund's turnover, transaction and market impact costs, interest and other costs and expenses.

The Fund has also obtained exemptive relief such that the Fund is permitted to engage in short selling transactions and cash borrowing up to a combined maximum of 100% of its net asset value, which is in excess of the short sale and cash borrowing limits provided for both conventional mutual funds and alternative mutual funds in NI 81-102.

(m) Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Picton Mahoney has determined that all of the underlying funds in which the Fund invests are unconsolidated structured entities. In making this determination, Picton Mahoney evaluated the fact that decision making about the underlying funds' activities is not governed by voting or similar rights held by the Fund and other investors in any underlying funds.

The Fund may invest in underlying funds whose investment objectives range from achieving short- to long-term income and capital growth potential. Underlying funds may use leverage in a manner consistent with their respective investment objectives. Underlying funds finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportionate stake in the respective fund's net assets.

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The Fund's interests in underlying funds as at December 31, 2020, held in the form of redeemable units, are included at their fair value in the Statement of Financial Position, which represent the Fund's maximum exposure in these underlying funds. The Fund does not provide and has not committed to provide any additional significant financial or other support to the underlying funds. The change in fair value of each of the underlying funds during the periods is included in 'Change in unrealized appreciation (depreciation) of investments, options, and foreign exchange forward contracts' in the Statement of Comprehensive Income.

(n) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

These financial statements, include estimates and assumptions by management that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ from these estimates. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

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

The Fund holds financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using recognized valuation techniques and may be determined using reputable pricing sources or indicative prices from market makers.

Where no market data is available, the Fund may value positions using its own models, which are based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by the Manager, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

4. FINANCIAL INSTRUMENTS RISKS

The Fund is exposed to various financial risks, including market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk. The investment team reviews and rebalances the portfolio on a regular and ongoing basis to maintain the risk reward targets. Portfolios within each strategy are reviewed relative to each other and to their benchmark. Active industry and security allocations are analyzed. All investments may result in a risk of loss of capital.

Please refer to the Fund Specific Notes for details of the Fund's financial instruments risks.

Price risk:

The Fund trades in financial instruments, taking positions in traded and over-the-counter instruments which may include derivatives. As of December 31, 2020 and December 31, 2019, the Fund held or had exposure to long and short equity positions in publicly traded companies whose securities are actively traded on a recognized public exchange. Equities are susceptible to price risk arising from uncertainties about future prices of those instruments (other than those arising from interest rate risk or currency risk).

Short sales entail certain risks, including the risk that a short sale of a security may expose a Fund to losses if the value of the security increases. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. In addition, a short sale by a Fund requires the Fund to borrow securities in order that the short sale may be transacted. There is no assurance that the lender of the securities will not require the security to be paid back by a Fund before the Fund wants to do so, possibly requiring the Fund to borrow the security elsewhere or purchase the security on the market at an unattractive price. Moreover, the borrowing of securities entails the payment of a borrowing fee. The borrowing fee may increase during the borrowing period, adding to the expense of the short sale strategy. There is also no guarantee that the securities sold short can be repurchased by a Fund due to supply and demand constraints in the equity markets. Finally, in order to maintain the appropriate ratios between the long portfolio and the short portfolio of a Fund, the Manager may be required to buy or sell short securities at unattractive prices. The maximum risk resulting for financial instruments held long is determined by the fair value of the instrument.

Currency risk:

Currency risk is the risk that the cash and securities held by the Fund as well as due to and due from broker balances may be valued in or have exposure to currencies other than the Canadian dollar which is the functional currency of the Fund. The prices of the foreign securities are denominated in foreign currencies which are converted to the Fund's functional currency for determining fair value and, accordingly, each Class Net Asset Value will be affected by fluctuations in the value of such foreign currencies relative to the Canadian dollar. The Fund may enter into forward currency contracts to manage currency risk.

Interest rate risk:

Interest rate risk arises when a fund invests in interest-bearing financial instruments and from the possibility that changes in the prevailing levels of market interest rates will affect future cash flows or fair values of such financial instruments. There is minimal fair value sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates. Market prices may also be affected by changes in market interest rates. Also, changes in the market interest rate may affect the borrowing expenses of the short positions held by the Fund. Refer to Note 7 within the fund specific notes for the fund exposure.

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. All transactions 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. However, there are risks involved in dealing with custodians or prime brokers who settle trades and in rare circumstances, the securities

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and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical problems or time delays associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

The Fund is exposed to credit risk. For other financial assets at amortized cost, the Manager considers both historical analysis and forward looking information in determining any expected credit loss. At December 31, 2020 and December 31, 2019, all receivables for investments sold, dividends receivable, due from manager, deposits with brokers for securities sold short, and cash are held with counterparties with a good credit quality and are due to be settled within one week. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

The Fund primarily invests in fixed income securities and is therefore exposed to the credit risk of the underlying fixed income portfolio. Refer to Note 8 within the fund specific notes for the fund exposure.

Liquidity Risk:

Liquidity risk is the risk that a Fund will not be able to generate sufficient cash availability to execute its payment obligations. The Fund primarily invests in liquid securities that are readily realizable in an active market which is essential if the Fund is required to fund daily redemptions in the course of operations. The Fund from time to time may invest in restricted securities through private placements. However, this type of investment does not constitute a significant percentage of the Fund's Net Asset Value. The Fund may also maintain a cash reserve to accommodate normal-type redemptions. All liabilities of the Fund mature in one year or less. Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

Concentration risk:

Concentration risk arises as a result of the concentration of financial instrument exposures within the same category, whether it is geographic region, asset type or industry sector.

Leverage Risk:

The Fund has received exemptive relief from Canadian securities regulatory authorities from certain investment restrictions set out in NI 81-102 that would restrict the ability of the Fund to leverage their assets through borrowing, short sales and/or derivatives. Investment decisions may be made for the assets of the Fund that exceed the net asset value of the Fund. As a result, if these investment decisions are incorrect, the resulting losses will be more than if investments were made solely in an unleveraged long portfolio as is the case in most conventional equity mutual funds. In addition, leveraged investment strategies can also be expected to increase a Fund's turnover, transaction and market impact costs, interest and other costs and expenses.

Pursuant to the terms of the exemptive relief, the Fund's aggregate gross exposure, calculated as the sum of the following, must not exceed three times the Fund's net asset value: (i) the aggregate market value of the Fund's long positions; (ii) the aggregate market value of physical short sales on equities, fixed income securities or other portfolio assets; and (iii) the aggregate notional value of the Fund's specified derivatives positions excluding any specified derivatives used for hedging purposes. If the Fund's aggregate gross exposure exceeds three times the Fund's net asset value, the Fund must, as

quickly as is commercially reasonable, take all necessary steps to reduce the aggregate gross exposure to three times the Fund's net asset value or less.

5. CAPITAL MANAGEMENT

The capital of a Fund is represented by the issued and outstanding units and the net asset value attributable to participating unitholders. The Manager utilizes the capital of the Fund in accordance with the Fund's investment objectives, strategies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet normal redemptions. The Fund does not have any externally imposed capital requirements.

6. REDEEMABLE UNIT TRANSACTIONS

The Fund is permitted to have an unlimited number of Classes of Units having such terms and conditions as the Manager may determine. Additional Classes may be offered in future on different terms, including having different fee and dealer compensation terms and different minimum subscription levels. Each Unit of a Class represents an undivided ownership interest in the Net Asset Value of the Fund attributable to that Class of Units.

Investors may be admitted to the Fund or may acquire additional Units on a daily basis. Units of the Fund are offered at the Class Net Asset Value per Unit calculated as of the applicable Valuation Date. The minimum initial investment in the Fund is \$2,000 for all Classes and the Manager has the discretion to accept a lesser initial subscription, provided, in each case, that the issuance of Units in respect of such subscription shall otherwise be exempt from the prospectus requirements of applicable securities legislation. Subsequent investments are subject to an additional minimum investment of CAD \$500 subject to applicable securities legislation. The capital of the Fund is represented by issued redeemable Units with no par value. The Units are entitled to distributions, if any, and to payment of a proportionate share based on the Fund's Net Asset Value per Unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of Units other than as described above. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and in the Fund Specific Notes of each Fund.

IAS 32, Financial Instrument - Recognition and Measurement, requires that units of an entity that include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Fund's units have been classified as financial liabilities. The Fund has multiple series of units that carry different management fee rates and therefore do not have identical features. As all units are equally subordinate, the units also would not meet the requirements of IAS 32 and therefore do not meet the conditions to be classified as equity.

Generally, all orders to purchase ETF units directly from a Fund must be placed by a Designated Broker or an "ETF Dealer", which is a registered dealer (that may or may not be a Designated Broker) that has entered into an agreement with us authorizing the dealer to subscribe for, purchase and redeem ETF units from one or more Funds on a continuous basis from time to time. For each Prescribed Number of Units issued, an ETF Dealer must deliver payment consisting of, either: (i) a group of securities or assets representing the constituents of the Fund (a "Basket of Securities") for each Prescribed Number of Units for which the subscription order has been accepted and cash, in an amount sufficient so that the value of the securities and cash received is equal to the aggregate net asset value of the Prescribed Number of Units next determined following the receipt of the subscription order; or (ii) cash only, securities other than Baskets of Securities or a combination of securities other than Baskets of Securities and cash, in an amount sufficient so that the value of the securities and cash received is equal to the aggregate net asset value of the Prescribed

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Number of Units next determined following the receipt of the subscription order. When you redeem ETF units of a Fund, you receive the proceeds of your sale in cash at a redemption price per unit equal to 95% of the closing trading price on the effective date of the cash redemption request, subject to a maximum redemption price of the applicable net asset value per unit. As unitholders will generally be able to sell ETF units at the market price on the TSX or another exchange or marketplace through a registered broker or dealer subject only to customary brokerage commissions.

7. DISTRIBUTIONS

The Fund intends to distribute net income and net realized capital gains, if any, to Unitholders at the end of each taxation year to ensure that the Fund is not liable for income tax under Part I of the Income Tax Act (Canada) (the "Act"), after taking into account any loss carry forwards and capital gains refunds.

All annual distributions paid on Class A, Class F, Class I and Class ETF units will be automatically reinvested in additional units.

8. TAXATION

The Fund qualifies as a "mutual fund trust" and will be subject to tax in each taxation year under Part I of the Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. The Fund deducts, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains, it will generally not be liable in such year for any tax on its net income or profit under Part I of the Tax Act. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statement of Financial Position as a deferred tax asset.

Non-capital losses have expiry periods of up to 20 years and can be offset against future taxable income. Net capital losses can be carried forward indefinitely and offset against future taxable capital gains. For tax loss carry forward information, please refer to Note 12 in the Fund Specific Notes.

The Fund is required to include in income for each taxation year any dividends received by it in a taxation year and all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. In computing its income, the Fund will take into account any loss carry-forwards, any capital gains refund and all deductible expenses, including management fees.

Gains and losses realized by the Fund on the disposition of securities will generally be reported as capital gains and capital losses. The Fund will elect under section 39(4) of the Tax Act so that all gains or losses realized on the disposition of securities that are "Canadian securities" (as defined in the Tax Act), including Canadian securities acquired in connection with short sales, will be deemed to be capital gains or losses to the Fund. Generally, gains and losses realized by the Fund from derivative securities and in respect of short sales of securities (other than Canadian securities) will be treated as income and losses of the Fund, except where a derivative is used to hedge securities held on capital account provided there is sufficient linkage and subject to detailed rules in the Tax Act. Whether gains or losses realized by the Fund in respect of a particular security (other than a Canadian security) is on income or capital account will depend largely on factual considerations. Losses incurred by the Fund in a taxation year cannot be allocated to unitholders, but may be deducted by the Fund in future years in accordance with the Tax Act.

9. OPERATING EXPENSES

The Manager is responsible for the day-to-day operations of the Fund. The Fund pays its own operating expenses, other than advertising costs and costs of dealer compensation programs, which are paid by the Manager. Operating expenses include, but are not limited to, brokerage commissions and fees, taxes, audit and legal fees, fees of the members of the Independent Review Committee ("IRC"), costs and fees in connection with the operation of the IRC, safekeeping and custodial fees, interest expenses, operating, administrative and systems costs, investor servicing costs and costs of financial and other reports to investors, as well as prospectuses, annual information forms and fund facts.

With the exception of Class specific expenses, all other expenses are allocated to each Class of the Fund based on the Class' pro-rated share of total Net Asset Value of the Fund. The Manager may from time to time waive any portion of the fees and reimbursement of expenses otherwise payable to it, but no such waiver affects its right to received fees and reimbursement of expenses subsequently accruing to it.

10. RELATED PARTY TRANSACTIONS

(a) Management Fees

The Manager receives a management fee payable for providing its services to the Fund. The management fee varies for each class of units. The management fee is calculated and accrued daily based on a percentage of the net asset value of the class of units of the Fund, plus applicable taxes, and is payable on the last business day of each calendar quarter. This fee differs among the classes of units of the Fund. The annual management fee payable by the Fund to the Manager on Class A units is 1.95% and on Class F units and Class ETF units is 0.95%. The management fee for Class I units of the Fund is negotiated by the investor and paid directly by the investor, and would not exceed the management fee payable on Class A units of the Fund.

Management Fee Distributions

The Manager may, in its discretion, agree to charge a reduced management fee as compared to the fee that the Manager otherwise would be entitled to receive from the Fund with respect to investments in the Fund by unitholders who hold a minimum amount of units during any period and/or meet other criteria as determined by the Manager from time to time. In such cases, an amount equal to the difference between the management fee otherwise chargeable and the reduced fee payable by the Fund will be distributed regularly by the Fund to those unitholders as "Management Fee Distributions". The Manager reserves the right, in its discretion, to discontinue or change Management Fee Distributions at any time.

(b) Performance Fees

The Manager receives a performance fee in respect of each of the Class A units, Class F, and Class ETF units of the Fund. The performance fee for each class shall be calculated and become a liability of the Fund on each Valuation Day and shall be payable at the end of each calendar quarter.

The performance fee is equal to 20% of the amount by which the performance of the applicable class exceeds an annual hurdle rate of return equal to 2%, for each of the Class A units, Class F units, or Class ETF units, plus applicable taxes. The performance fee in respect of each of the Class A units, Class F units, and Class ETF units of the Fund on a particular Valuation Day shall be equal to the product of, (a) 20% of the positive difference between (i) the Unit Price on the Valuation Day; and (ii) the greatest Unit Price on any previous Valuation Day or the Unit Price on the date when the units of the class were first issued, where no performance fee liability has previously arisen in respect of units of the class (the "High Water Mark"); less (iii) the hurdle amount (the "Hurdle Amount") per unit

PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

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As at December 31, 2020 and December 31, 2019

on the Valuation Day; and (b) the number of units outstanding on the applicable Valuation Day on which the performance fee is determined, plus applicable taxes.

The Hurdle Amount per unit is the product of (a) 2% for each calendar year (prorated for the number of days in the year); (b) the Unit Price on the applicable Valuation Day; and (c) the number of days since the most recently determined High Water Mark or the beginning of the current calendar year, whichever is most recent. The Manager may make such adjustments to the Unit Price, the High Water Mark and/or the Hurdle Amount per unit as are determined by the Manager to be necessary to account for the payment of any distributions on units, any unit splits or consolidations or any other event or matter that would, in the opinion of the Manager, impact upon the computation of the performance fee. Any such determination of the Manager shall, absent manifest error, be binding on all unitholders. Investors in Class I units may negotiate a different performance fee than the one described herein or no performance fee at all. Any performance fee for Class I units will be paid directly to the Manager. The Manager reserves the right, in its discretion, to discontinue, decrease or waive the performance fee at any time. For the year ended December 31, 2020, the Fund incurred performance fees of \$3,839,200 plus applicable taxes. At the Manager's discretion, these fees were waived for the year.

(c) Fund-on-Fund Fees and Expenses

When the Fund invests in an underlying fund, the underlying fund may pay a management and performance fee and other expenses in addition to the fees and expenses payable by the Fund. The fees and expenses of the underlying fund will have an impact on the management expense ratio of the Fund. However, the Fund will not pay a management or performance fee that, to a reasonable person, would duplicate a fee payable by the underlying fund(s) for the same service. In addition, the Fund will not pay any sales charges, redemption fees or short-term trading fees for its purchase or redemption of units of any underlying fund that is managed by the Manager, or that, in respect of the other underlying funds, to a reasonable person, would duplicate a fee payable by an investor in any underlying fund.

**THINK AHEAD.
STAY AHEAD.**



PICTON MAHONEY ASSET MANAGEMENT CORPORATE INFORMATION

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