AUDITED ANNUAL FINANCIAL STATEMENTS **DECEMBER 2024**

PICTON MAHONEY Asset Management

# FORTIFIED INVESTMENT GRADE 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 Investment Grade 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 those requirements of International Financial Reporting Standards as issued by the International Accounting Standards Board 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 pages.

**Picton Mahoney Asset Management**
Toronto, Ontario
March 24, 2025

# INDEPENDENT AUDITOR'S REPORT

To the Unitholders and Trustee of
Picton Mahoney Fortified Investment Grade 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, 2024 and its financial performance and its cash flows for the period from October 31, 2024 (commencement of operations) to December 31, 2024 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

*What we have audited*
The Fund's financial statements comprise:

- the statement of financial position as at December 31, 2024;
- the statement of comprehensive income for the period from October 31, 2024 (commencement of operations) to December 31, 2024;
- the statement of changes in net assets attributable to holders of redeemable units for the period from October 31, 2024 (commencement of operations) to December 31, 2024;
- the statement of cash flows for the period from October 31, 2024 (commencement of operations) to December 31, 2024; and
- the notes to the financial statements, comprising material accounting policy information 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. The other information comprises the 2024 Annual Management Report of Fund Performance.

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

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 Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

**Auditor's responsibilities for the audit of the financial statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

# 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 Christina Fox.

**/s/PricewaterhouseCoopers LLP**

**Chartered Professional Accountants, Licensed Public Accountants**
Toronto, Ontario
March 24, 2025

## STATEMENT OF FINANCIAL POSITION

As at

| | December 31, 2024 $ |
|---|---|
| **Assets** | |
| **Current assets** | |
| Long positions at fair value* | 31,979,230 |
| Cash | - |
| Cash, pledged as collateral | 49,398 |
| Due from Manager | 19,205 |
| Interest and other receivable | 276,009 |
| | 32,323,842 |
| **Liabilities** | |
| **Current liabilities** | |
| Short positions at fair value** | 10,854,463 |
| Management fee Payable | 612 |
| Accrued liabilities | 24,751 |
| Interest and other payable | 80,496 |
| | 10,960,322 |
| **Net Assets Attributable to Holders of Redeemable Units** | 21,363,520 |
| **Net Assets Attributable to Holders of Redeemable Units per Class** | |
| Class A | 39,807 |
| Class F | 40,291 |
| Class I | 20,242,662 |
| Class O | 37,884 |
| Class ETF | 1,002,876 |
| **Number of Redeemable Units Outstanding** | |
| Class A | 3,975 |
| Class F | 4,018 |
| Class I | 2,016,024 |
| Class O | 3,773 |
| Class ETF | 100,000 |
| **Net Assets Attributable to Holders of Redeemable Units per Unit** | |
| Class A | 10.01 |
| Class F | 10.03 |
| Class I | 10.04 |
| Class O | 10.04 |
| Class ETF*** | 10.03 |
| * Long positions, at cost | 31,917,684 |
| ** Short positions, at cost | (10,838,428) |
| *** Closing Market Price (TSX) | 10.07 |

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

Approved on behalf of the Manager

David Picton — President

Arthur Galloway — CFO

## STATEMENT OF COMPREHENSIVE INCOME

For the period from October 31, 2024 (commencement of operations) to December 31, 2024

| | 2024 $ |
|---|---|
| **Income** | |
| Net gains (losses) on investments and derivatives | |
| Interest for distribution purposes | 192,263 |
| Net realized gain (loss) on investments | 28,617 |
| Change in unrealized appreciation (depreciation) on investments | 45,511 |
| Interest and borrowing expense | (44,282) |
| Net gains (losses) on investments and derivatives | 222,109 |
| Other income | |
| Total Income | 222,109 |
| **Expenses** | |
| Administrative fees | 16,168 |
| Audit fees | 2,879 |
| Legal fees | 2,270 |
| Performance fees | 2,131 |
| Independent review committee fees | 1,717 |
| Securityholder reporting fees | 1,717 |
| Management fees | 1,363 |
| Total expense before manager absorption | 28,245 |
| Less expenses absorbed by manager | (21,336) |
| Total expense after manager absorption | 6,909 |
| **Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units** | 215,200 |
| **Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class** | |
| Class A | 297 |
| Class F | 341 |
| Class I | 205,162 |
| Class O | 384 |
| Class ETF | 9,016 |
| **Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit** | |
| Class A | 0.08 |
| Class F | 0.09 |
| Class I | 0.12 |
| Class O | 0.10 |
| Class ETF | 0.09 |

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

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the period from October 31, 2024 (commencement of operations) to December 31, 2024

| | 2024 $ |
|---|---|
| **Net Assets Attributable to Holders of Redeemable Units at Beginning of Period** | |
| Class A | - |
| Class F | - |
| Class I | - |
| Class O | - |
| Class ETF | - |
| | - |
| **Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units** | |
| Class A | **297** |
| Class F | **341** |
| Class I | **205,162** |
| Class O | **384** |
| Class ETF | **9,016** |
| | **215,200** |
| **Redeemable Unit Transactions** | |
| Proceeds from redeemable units issued | |
| Class A | **39,510** |
| Class F | **39,950** |
| Class I | **20,037,500** |
| Class O | **37,500** |
| Class ETF | **1,000,000** |
| | **21,154,460** |
| Reinvestments of distributions to holders of redeemable units | |
| Class A | **242** |
| Class F | **245** |
| Class I | **123,030** |
| Class O | **230** |
| Class ETF | - |
| | **123,747** |
| **Net Increase (Decrease) from Redeemable Unit Transactions** | **21,278,207** |

| | 2024 $ |
|---|---|
| **Distributions to Holders of Redeemable Units** | |
| From net investment income | |
| Class A | **(239)** |
| Class F | **(242)** |
| Class I | **(121,427)** |
| Class O | **(227)** |
| Class ETF | **(6,060)** |
| | **(128,195)** |
| From capital gains | |
| Class A | **(3)** |
| Class F | **(3)** |
| Class I | **(1,603)** |
| Class O | **(3)** |
| Class ETF | **(80)** |
| | **(1,692)** |
| **Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units** | **21,363,520** |
| **Net Assets Attributable to Holders of Redeemable Units at End of Period** | |
| Class A | **39,807** |
| Class F | **40,291** |
| Class I | **20,242,662** |
| Class O | **37,884** |
| Class ETF | **1,002,876** |
| **Net Assets Attributable to Holders of Redeemable Units at End of Period** | **21,363,520** |

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

## STATEMENT OF CASH FLOWS

For the period from October 31, 2024 (commencement of operations) to December 31, 2024

| | 2024<br>$ |
|---|---|
| **Cash Flows from Operating Activities** | |
| Increase (decrease) in net assets attributable to holders of redeemable units | 215,200 |
| Adjustments for: | |
| Net realized (gain) loss on investments | (28,617) |
| Change in unrealized (appreciation) depreciation on investments | (45,511) |
| (Increase) decrease in due from manager | (19,205) |
| (Increase) decrease in interest and other receivables | (276,009) |
| Increase (decrease) in interest and other payable | 80,496 |
| Increase (decrease) in other payable and accrued liabilities | 25,363 |
| Purchase of long positions and repurchase of investments sold short | (102,218,838) |
| Proceeds from sale of long positions and on investments sold short | 81,168,199 |
| **Net cash generated (used) by operating activities** | (21,098,922) |
| | |
| **Cash Flows from Financing Activities** | |
| Distributions to holders of redeemable units, net of reinvested distributions | (6,140) |
| Proceeds from redeemable units issued | 21,154,460 |
| **Net cash generated (used) by financing activities** | 21,148,320 |
| | |
| Net increase (decrease) in cash | 49,398 |
| Cash (overdraft), beginning of period | - |
| **Cash (Overdraft), end of period** | 49,398 |
| | |
| **Cash** | - |
| **Cash, pledged as collateral** | 49,398 |
| **Net Cash (Overdraft)** | 49,398 |
| | |
| **Items Classified as Operating Activities:** | |
| Interest received, net of withholding tax | 13,124 |

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

## SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2024

| CCY* | No. of shares/ units/ Face value | Security Description | Average cost ($) | Fair value ($) |
|---|---|---|---|---|
| | | **LONG POSITIONS (149.7%)** | | |
| | | **Canadian Debt (135.6%)** | | |
| | | **Government Bonds (5.8%)** | | |
| CAD | 1,250,000 | Province of Ontario Canada 4.150%, 2054-12-02 | 1,258,575 | 1,242,614 |
| | | **Corporate Bonds (129.8%)** | | |
| CAD | 800,000 | Alimentation Couche-Tard Inc. 3.600%, 2025-06-02 | 798,560 | 800,115 |
| CAD | 525,000 | Allied Properties REIT 3.636%, 2025-04-21 | 523,583 | 524,709 |
| CAD | 525,000 | Allied Properties REIT 1.726%, 2026-02-12 | 507,833 | 511,502 |
| CAD | 953,000 | Allied Properties REIT 5.534%, 2028-09-26 | 958,994 | 968,555 |
| CAD | 550,000 | Bank of Montreal 6.034%, 2033-09-07 | 584,592 | 587,223 |
| CAD | 1,250,000 | Bank of Nova Scotia 4.192%, 2026-08-04 | 1,250,038 | 1,249,868 |
| CAD | 520,000 | Brookfield Renewable Partners ULC 5.450%, 2055-03-12 | 520,000 | 521,783 |
| CAD | 750,000 | Canadian Imperial Bank of Commerce 4.375%, 2080-10-28 | 748,500 | 749,249 |
| CAD | 1,000,000 | Enbridge Inc. 6.625%, 2078-04-12 | 1,042,270 | 1,051,432 |
| CAD | 1,080,000 | Equitable Bank 3.910%, 2027-12-17 | 1,079,730 | 1,081,366 |
| CAD | 510,000 | First Capital Real Estate Investment Trust 3.604%, 2026-05-06 | 508,756 | 509,815 |
| CAD | 1,325,000 | Ford Credit Canada Co. 7.000%, 2026-02-10 | 1,367,930 | 1,368,830 |
| CAD | 1,204,000 | Ford Credit Canada Co. 4.613%, 2027-09-13 | 1,208,352 | 1,217,427 |
| CAD | 1,325,000 | National Bank of Canada 3.565%, 2025-10-20 | 1,325,225 | 1,325,861 |
| CAD | 550,000 | Pembina Pipeline Corp. 3.310%, 2030-02-01 | 535,491 | 535,469 |
| CAD | 550,000 | Rogers Communications Inc. 4.250%, 2032-04-15 | 547,586 | 547,323 |
| CAD | 540,000 | Royal Bank of Canada 5.096%, 2034-04-03 | 564,257 | 561,373 |
| CAD | 520,000 | Royal Bank of Canada 6.698%, 2049-12-31 | 543,400 | 542,927 |
| CAD | 1,270,000 | Royal Bank of Canada 4.500%, 2080-11-24 | 1,268,730 | 1,270,311 |
| CAD | 1,325,000 | Royal Bank of Canada 4.000%, 2081-02-24 | 1,309,763 | 1,314,312 |
| CAD | 525,000 | Suncor Energy Inc. 5.600%, 2025-11-17 | 533,925 | 534,305 |
| CAD | 1,325,000 | Sysco Canada Inc. 3.650%, 2025-04-25 | 1,323,145 | 1,325,306 |
| CAD | 650,000 | TELUS Corp. 3.750%, 2025-01-17 | 649,734 | 649,982 |
| CAD | 1,325,000 | Thomson Reuters Corp. 2.239%, 2025-05-14 | 1,314,201 | 1,319,029 |
| CAD | 390,000 | Toronto-Dominion Bank 5.750%, 2049-12-31 | 388,538 | 389,825 |
| CAD | 510,000 | Toronto-Dominion Bank 5.177%, 2034-04-09 | 528,656 | 530,990 |
| CAD | 550,000 | Toronto-Dominion Bank 4.423%, 2035-10-31 | 552,349 | 555,533 |
| CAD | 1,325,000 | Toronto-Dominion Bank 4.229%, 2025-01-31 | 1,326,060 | 1,325,424 |
| CAD | 1,325,000 | Toronto-Dominion Bank 3.105%, 2030-04-22 | 1,319,727 | 1,323,113 |
| CAD | 1,325,000 | Videotron Ltd. 5.625%, 2025-06-15 | 1,331,554 | 1,329,760 |
| CAD | 340,000 | VW Credit Canada Inc. 4.695%, 2027-02-19 | 340,000 | 339,980 |
| CAD | 850,000 | Whitecap Resources Inc. 4.382%, 2029-11-01 | 847,527 | 857,194 |
| | | | 27,649,006 | 27,719,891 |
| | | **Total Canadian Debt - Long** | **28,907,581** | **28,962,505** |
| | | **Global Debt (14.1%)** | | |
| | | **United States Bonds (14.1%)** | | |
| CAD | 555,000 | McDonald's Corp. 4.857%, 2031-05-21 | 574,308 | 579,652 |
| CAD | 1,107,000 | Pacific Life Global Funding II 4.357%, 2027-02-01 | 1,109,867 | 1,109,679 |
| CAD | 1,325,000 | Wells Fargo & Co. 4.168%, 2026-04-28 | 1,325,928 | 1,327,394 |
| | | | 3,010,103 | 3,016,725 |
| | | **Total Global Debt - Long** | **3,010,103** | **3,016,725** |
| | | **Total Long Positions** | **31,917,684** | **31,979,230** |
| | | **SHORT POSITIONS (-50.8%)** | | |
| | | **Canadian Debt (-50.8%)** | | |
| | | **Government Bonds (-44.6%)** | | |
| CAD | (600,000) | Canadian Government Bond 2.250%, 2029-06-01 | (583,980) | (584,772) |
| CAD | (675,000) | Canadian Government Bond 2.750%, 2030-03-01 | (667,035) | (667,262) |
| CAD | (500,000) | Canadian Government Bond 1.500%, 2026-06-01 | (489,550) | (490,723) |
| CAD | (2,379,000) | Canadian Government Bond 2.750%, 2027-09-01 | (2,364,955) | (2,370,156) |
| CAD | (1,474,000) | Canadian Government Bond 3.250%, 2028-09-01 | (1,482,609) | (1,490,508) |
| CAD | (1,440,000) | Canadian Government Bond 4.000%, 2029-03-01 | (1,498,034) | (1,499,195) |
| CAD | (504,000) | Canadian Government Bond 3.000%, 2034-06-01 | (495,279) | (495,319) |
| CAD | (860,000) | Canadian Government Bond 3.500%, 2029-09-01 | (881,855) | (879,921) |
| CAD | (580,000) | Canadian Government Bond 1.500%, 2031-06-01 | (522,116) | (527,398) |
| CAD | (590,000) | Canadian Government Bond 1.500%, 2031-12-01 | (532,165) | (531,530) |
| | | | (9,517,578) | (9,536,784) |

## SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2024

| CCY* | No. of shares/ units/ Face value | Security Description | Average cost ($) | Fair value ($) |
|---|---|---|---|---|
| | **Corporate Bonds (-6.2%)** | | | |
| CAD | (1,250,000) | Hydro One Inc. 4.850%, 2054-11-30 | (1,320,850) | (1,317,679) |
| | | **Total Canadian Debt - Short** | **(10,838,428)** | **(10,854,463)** |
| | | **Total Short Positions** | **(10,838,428)** | **(10,854,463)** |
| | | **TOTAL INVESTMENT PORTFOLIO (98.9%)** | **21,079,256** | **21,124,767** |
| | | Other Assets Net of Liabililties (1.1%) | | 238,753 |
| | | **TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (100.0%)** | | **21,363,520** |

**CCY denotes local currency of debt security*

**FUND SPECIFIC NOTES**

As at December 31, 2024

# 1. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following table illustrates the classifications of the Fund's financial instruments within the fair value hierarchy as at December 31, 2024.

| ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2024 | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| Bonds - Long | - | 31,979,230 | - | 31,979,230 |
| Bonds - Short | - | (10,854,463) | - | (10,854,463) |
| **Total** | **-** | **21,124,767** | **-** | **21,124,767** |

# 2. OTHER PRICE RISK

Using Beta as a measure of the relationship of the Fund's performance versus its index, if the S&P/TSX Composite Total Return Index were to increase or decrease by 10%, net assets would have increased or decreased by approximately $164,175. In practice the actual results may differ from this sensitivity analysis and the difference could be material.

# 3. CURRENCY RISK

As at December 31, 2024, the Fund had no direct exposure to foreign currencies.

# 4. INTEREST RATE RISK

As at December 31, 2024, the Fund's investment portfolio includes interest bearing financial instruments. As a result, the Fund is subject to interest rate risk due to fluctuations in the prevailing level of market interest rates which could impact the Fund's cash flows and the fair values of its interest bearing investments. If the yield curve had shifted in parallel by 1%, with all other variables held constant, net assets will increase or decrease by $114,319. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

As at December 31, 2024, the Fund's exposure to debt instruments by maturity were as follows:

| Debt Instruments by Maturity Date | December 31, 2024 ($) | | |
|---|---|---|---|
| | Long Positions | Short Positions | Total |
| Less than 1 year | 9,134,491 | - | 9,134,491 |
| 1-3 years | 8,715,861 | (2,860,879) | 5,854,982 |
| 3-5 years | 1,825,749 | (4,454,396) | (2,628,647) |
| Greater than 5 years | 12,303,129 | (3,539,188) | 8,763,941 |
| **Total** | **31,979,230** | **(10,854,463)** | **21,124,767** |

**FUND SPECIFIC NOTES (CONTINUED)**

## 5. CREDIT RISK

Credit risk arises from investments in debt instruments.The following table 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. All cash is held with a financial institution with a minimum of credit rating A+.

| | December 31, 2024 | | |
|---|---|---|---|
| **Bond Ratings** | **Net** | **Long** | **Short** |
| AAA | -44.6% | 0.0% | -44.6% |
| AA- | 11.0% | 11.0% | 0.0% |
| A+ | 6.2% | 6.2% | 0.0% |
| A | -6.2% | 0.0% | -6.2% |
| A- | 17.3% | 17.3% | 0.0% |
| BBB+ | 36.9% | 36.9% | 0.0% |
| BBB | 33.3% | 33.3% | 0.0% |
| BBB- | 40.1% | 40.1% | 0.0% |
| BB+ | 4.9% | 4.9% | 0.0% |

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.

## 6. CONCENTRATION RISK

The table below summarizes the Fund's concentration risk as a percentage of net assets attributable to holders of redeemable units as at December 31, 2024.

| **Jurisdiction** | **% of Net Assets** | |
|---|---|---|
| | **December 31, 2024** | |
| **LONG POSITIONS** | | **149.7%** |
| **Canadian Debt** | | **135.6%** |
| Corporate Bonds | 129.8% | |
| Government Bonds | 5.8% | |
| **Global Debt** | | **14.1%** |
| United States Bonds | 14.1% | |
| **SHORT POSITIONS** | | **-50.8%** |
| **Canadian Debt** | | **-50.8%** |
| Government Bonds | -44.6% | |
| Corporate Bonds | -6.2% | |

## 7. LIQUIDITY RISK

The table below categorizes the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Amounts due to holders of redeemable units are disclosed as net assets attributable to holders of redeemable units on the statements of financial position and are due on demand.

| **December 31, 2024**<br>**Financial Liabilities** | **On Demand**<br>**$** | **< 3 months**<br>**$** | **> 3 months**<br>**$** | **Total**<br>**$** |
|---|---|---|---|---|
| Short positions | 10,854,463 | - | - | 10,854,463 |
| Accrued liabilities and other payables | - | 105,859 | - | 105,859 |

**FUND SPECIFIC NOTES (CONTINUED)**

## 8. FUND UNIT TRANSACTIONS

For the period from October 31, 2024 (commencement of operations) to December 31, 2024

| | 2024 | | | | |
|---|---|---|---|---|---|
| | Class A | Class F | Class I | Class O | Class ETF |
| Units issued and outstanding, beginning of period | - | - | - | - | - |
| Units issued | 3,951 | 3,993 | 2,003,750 | 3,750 | 100,000 |
| Units reinvested | 24 | 25 | 12,274 | 23 | - |
| **Units issued and outstanding, end of period** | 3,975 | 4,018 | 2,016,024 | 3,773 | 100,000 |
| **Weighted average number of units held during the period** | 3,872 | 3,811 | 1,751,535 | 3,753 | 100,000 |

## 9. COMMISSIONS

For the period from October 31, 2024 (commencement of operations) to December 31, 2024 (in $000)

| | 2024 |
|---|---|
| Brokerage commissions | - |
| Soft Dollar commissions | - |

## 10. TAX LOSS CARRY FORWARDS

As at December 31 (in $000)

| | 2024 |
|---|---|
| Net capital losses carry forward | - |
| Non-capital losses carry forward | - |

## 11. LEVERAGE

During the year ended December 31, 2024, the Fund's aggregate exposure reached a low of 6.24% and a high of 88.86% of the Fund's NAV. As at December 31, 2024, the Fund's aggregate exposure was 50.81% of the Fund's NAV. The primary source of leverage was short positions in fixed income securities.

As at December 31, 2024

## 1. GENERAL INFORMATION

Picton Mahoney Fortified Investment Grade Alternative Fund (the "Fund") is an open-ended mutual fund trust that was established under the laws of the Province of Ontario pursuant to a trust agreement dated September 19, 2018, as amended and restated as of June 26, 2019, July 7, 2020, August 17,2020, July 8, 2021, April 20, 2022, October 28, 2022, April 26, 2023 and further amended and restated October 31, 2024. Picton Mahoney Asset Management acts as the manager (the "Manager"), portfolio advisor, and trustee for the Fund. As at October 31, 2024, the Manager held all of the units of the Fund and as such is the Fund's ultimate parent as of that date. The address of the Fund's registered office is 33 Yonge Street, Suite 320, 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 24, 2025.

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, Class O units, 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 O units are available to only investors who have a discretionary managed account with the Manager and make the required minimum initial investment and minimum subsequent investment as determined by the Manager from time to time.

As at December 31, 2024, the Fund currently has 5 Classes of Units: Class A, Class F, Class I, Class O and Class ETF. As at December 31, 2024, the Manager holds 3,774 units of Class A, 3,773 units of Class F, 3,773 units of Class I, and 3,773 units of Class O of the Fund.

The investment objective of the Fund is to enhance yield and return potential through exposure to high-quality, investment-grade credit. The Fund employs leverage, derivatives for both hedging and non-hedging purposes, short selling, and cash borrowing to effectively manage its strategy.

The Fund is considered an "alternative mutual fund" meaning it is permitted to use strategies generally prohibited by conventional mutual funds under National Instrument 81-102 - Investment Funds ("NI 81-102"), 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; among other things. The Fund has obtained exemptive relief from the Canadian securities regulatory authorities to permit the Fund to engage in short sales and cash borrowing transactions in excess of the foregoing exposure limitations under NI 81-102 and use strategies generally prohibited for alternative mutual funds under NI 81-102, provided that (a) the aggregate market value of all securities sold short by the Fund does not exceed 100% of the Fund's net asset value, (b) the aggregate market value of all cash borrowing by the Fund does not exceed 100% of the Fund's net asset value, (c) the aggregate market value of securities sold short by the Fund combined with the aggregate value of cash borrowing by the Fund does not exceed 100% of the Fund's net asset value, and (d) the Fund's aggregate exposure to short selling, cash borrowing and specified derivatives does not exceed 300% of the Fund's net asset value. In addition, the relief permits the Fund to deposit portfolio assets with a borrowing agent as security in connection with a short sale of securities in excess of 25% of the net asset value of the Fund at the time of deposit.

## 2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The following is a summary of the material accounting policies and estimation techniques adopted by the Funds and applied in the preparation of these financial statements.

### (a) Basis of Preparation

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

As at December 31, 2024

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.

**(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 O 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.

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.

### (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.

As at December 31, 2024

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. The Fund's interests in underlying funds as at December 31, 2024, 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.

**(o) Future accounting changes**

In April 2024, the International Accounting Standards Board issued IFRS 18, "Presentation and Disclosure in the Financial Statements" which aims to improve the quality of financial reporting by introducing new requirements which include new required categories and subtotals in the Statement of comprehensive income and enhanced guidance on grouping of information. IFRS 18 replaces IAS 1, "Presentation of Financial Statements". This standard is effective for annual periods beginning on or after January 1, 2027, with early adoption permitted. The Manager is currently assessing the impact of these new requirements.

## 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 may hold 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 may consider 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, 2024, 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.

**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.

**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 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, 2024, all receivables for investments sold, dividends receivable, due from manager, 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.

**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.

**Geopolitical Risk:**
Unforeseeable events such as military action, terrorism, tariffs, trade, restrictions, natural disasters and pandemics may adversely impact global commercial activity and contribute to potential market volatility and liquidity concerns in various economic markets. These events may create significant disruption in supply chains, economic activity, global trading markets and issuers in which the Fund invests, thereby impacting the performance of the Fund.

## 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.

As at December 31, 2024

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 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, Class O and Class ETF units will be automatically reinvested in additional units.

## 8. TAXATION

The Fund is currently a Unit 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, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. The Fund intends to deduct, 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 as described under "Distributions", it will generally not be liable in such year for any tax on its net income or profit under Part I of the 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.

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.

*Auditor's Fees*
For the year ended December 31, 2024, fees paid or payable to PricewaterhouseCoopers LLP ("PwC") and other PwC Network firms for audit services to public interest entity funds managed by the Manager were $355,133. Fees for other services were $319,757.

## 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 is 0.95% and on Class ETF units is 0.95%. The management fee for Class I units and Class O 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/

As at December 31, 2024

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 units, and Class O 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, Class O or Class ETF units, plus applicable taxes. The performance fee in respect of each of the Class A units, Class F units, Class O 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 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, 2024, the Fund incurred performance fees of $2,131. At the Manager's discretion, these fees were waived for the year. The Manager has waived the performance fees for the Fund until October 31, 2025. The Manager reserves the option of extending or discontinuing this waiver after this date.

**(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.

## 11. SUBSEQUENT EVENT

Subsequent to year end, changes in U.S. policy and administration led to announced changes in trade arrangements amount the U.S., Canada, and Mexico. The potential for changes in existing trade agreements, the imposition of new tariffs, and retaliatory tariffs, or greater restrictions on trade in general, may lead to greater economic and market uncertainty. Should material market changes materialize, these may have an impact on the fund performance and underlying investments.

**THINK AHEAD.**
**STAY AHEAD.**

## PICTON MAHONEY ASSET MANAGEMENT CORPORATE INFORMATION


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