

# **LDIC North American Small Business Fund (Corporate Class)**

**Financial statements  
December 31, 2021**



# Independent auditor's report

To the Unitholders of  
**LDIC North American Small Business Fund**

## Opinion

We have audited the financial statements of the **LDIC North American Small Business Fund** [the "Fund"], which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in net assets attributable to holders of redeemable units and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

## Basis for opinion

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

## Other information

Management is responsible for the other information. The other information comprises the 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, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance prior to the date of this auditor's report. 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 in this auditor's report. 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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



### **Auditor’s responsibilities for the audit of the financial statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 David Tedesco.

Toronto, Canada  
March 23, 2022

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants



## LDIC North American Small Business Fund (Corporate Class)

### Statements of financial position

As at December 31

	2021	2020
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Financial assets at fair value through profit or loss <i>[note 3]</i>	16,048,940	19,462,458
Cash	4,487,133	440,405
Accrued dividends	11,803	5,147
Receivables for investments sold	—	84,838
Subscriptions receivable	—	20,000
<b>Total assets</b>	<b>20,547,876</b>	<b>20,012,848</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Performance fees payable	—	398,575
Accrued expenses	47,790	51,175
Management fees payable	21,939	20,957
<b>Total liabilities [excluding net assets attributable to holders of redeemable shares]</b>	<b>69,729</b>	<b>470,707</b>
<b>Net assets attributable to holders of redeemable shares <i>[note 4]</i></b>	<b>20,478,147</b>	<b>19,542,141</b>
<b>Net assets attributable to holders of redeemable shares per series</b>		
Series A	686,774	641,421
Series F	12,181,483	11,573,563
Series F1	7,609,890	7,327,157
<b>Net assets attributable to holders of redeemable shares per series per share <i>[note 4]</i></b>		
Series A	15.65	14.56
Series F	16.63	15.29
Series F1	16.23	15.01

See accompanying notes

Approved on behalf of LDIC Inc., as manager of the LDIC North American Small Business Fund (Corporate Class).

/s/ Michael B. Decter  
Michael B. Decter, Director

/s/ Ron Bailey  
Ron Bailey, Director

## LDIC North American Small Business Fund (Corporate Class)

### Statements of comprehensive income

Years ended December 31

	2021	2020
	\$	\$
<b>Net gain (loss) on financial instruments</b>		
Dividend income	348,392	95,350
Interest for distribution purposes	3,960	65,234
Foreign exchange gain (loss)	(21,466)	(44,085)
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss		
Net realized gain (loss) on sale of investments	2,206,272	1,429,165
Change in unrealized appreciation (depreciation) in value of investments	(278,574)	3,617,291
Change in unrealized appreciation (depreciation) in value of foreign exchange from currency	(17,210)	(342)
Net gain (loss) on financial instruments	<u>2,241,374</u>	<u>5,162,613</u>
<b>Expenses [note 5]</b>		
Management fees	281,613	211,282
Transaction costs [note 7]	115,961	108,356
Other expenses	62,982	47,969
Valuation fees	34,400	34,106
Audit fees	27,314	23,789
Securityholder reporting costs	25,030	21,278
Filing fees	24,148	20,424
Legal fees	23,197	20,049
Custodian fees	8,268	8,358
Independent review committee fees	3,307	3,343
Performance fees	—	396,159
<b>Total expenses</b>	<u>606,220</u>	<u>895,113</u>
<b>Increase in net assets attributable to holders of redeemable units before tax</b>	<u>1,635,154</u>	<u>4,267,500</u>
Withholding taxes [note 6]	—	(3,310)
<b>Increase (decrease) in net assets attributable to holders of redeemable shares from operations [excluding distributions]</b>	<u>1,635,154</u>	<u>4,264,190</u>
<b>Increase (decrease) in net assets attributable to holders of redeemable shares per series from operations [excluding distributions]</b>		
Series A	49,273	140,403
Series F	998,253	2,474,033
Series F1	587,628	1,649,754
<b>Average number of shares outstanding for the year per series</b>		
Series A	44,659	54,305
Series F	739,121	823,053
Series F1	<u>470,478</u>	<u>447,666</u>
<b>Increase (decrease) in net assets attributable to holders of redeemable shares per share from operations [excluding distributions]</b>		
Series A	1.1	2.59
Series F	1.35	3.01
Series F1	<u>1.25</u>	<u>3.69</u>

See accompanying notes

**LDIC North American Small Business Fund (Corporate Class)**

**Statements of changes in net assets attributable to holders of redeemable units**

Years ended December 31

	Series A		Series F	
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Net assets attributable to holders of redeemable shares at beginning of year</b>	<b>641,421</b>	915,989	<b>11,573,563</b>	10,918,427
<b>Increase (decrease) in net assets attributable to holders of redeemable shares from operations (excluding distributions)</b>	<b>49,273</b>	140,403	<b>998,253</b>	2,474,033
<b>Redeemable share transactions</b>				
Proceeds from redeemable shares issued	13,443	6,000	—	—
Redemption of redeemable shares	(17,363)	(420,971)	(390,333)	(1,818,897)
	<b>(3,920)</b>	(414,971)	<b>(390,333)</b>	(1,818,897)
<b>Net increase (decrease) in net assets attributable to holders of redeemable shares</b>	<b>45,353</b>	(274,568)	<b>607,920</b>	655,136
<b>Net assets attributable to holders of redeemable shares at end of year</b>	<b>686,774</b>	641,421	<b>12,181,483</b>	11,573,563
	Series F1		Total	
	2021	2020	2021	2020
	\$	\$	\$	\$
	<b>7,327,157</b>	4,717,879	<b>19,542,141</b>	16,552,295
<b>Increase (decrease) in net assets attributable to holders of redeemable shares from operations (excluding distributions)</b>	<b>587,628</b>	1,649,754	<b>1,635,154</b>	4,264,190
Proceeds from redeemable shares issued	624,314	2,042,393	637,757	2,048,393
Redemption of redeemable shares	(929,209)	(1,082,869)	(1,336,905)	(3,322,737)
	<b>(304,895)</b>	959,524	<b>(699,148)</b>	(1,274,344)
	<b>282,733</b>	2,609,278	<b>936,006</b>	2,989,846
	<b>7,609,890</b>	7,327,157	<b>20,478,147</b>	19,542,141

See accompanying notes

## LDIC North American Small Business Fund (Corporate Class)

### Statements of cash flows

Years ended December 31

	2021	2020
	\$	\$
<b>Operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable shares from operations [excluding distributions]	1,635,154	4,264,190
Adjustments for:		
Foreign exchange (gain) loss	21,466	44,085
Net realized (gain) loss on sale of investments	(2,206,272)	(1,429,165)
Change in unrealized (appreciation) depreciation in value of investments	278,574	(3,617,291)
Purchases of investments	(17,030,665)	(16,657,176)
Proceeds from sale of investments	22,456,719	18,835,528
Accrued dividends	(6,656)	7,123
Accrued interest	—	2,075
Performance fees	(398,575)	398,575
Accrued expenses	(3,385)	(80,235)
Management fees payable	982	2,552
<b>Net cash from (used in) operating activities</b>	<b>4,747,342</b>	<b>1,770,261</b>
<b>Financing activities</b>		
Cash flows from (used in) financing activities		
Proceeds from redeemable shares issued	657,757	2,028,393
Redemption of redeemable shares	(1,336,905)	(3,322,737)
<b>Net cash from (used in) financing activities</b>	<b>(679,148)</b>	<b>(1,294,344)</b>
<b>Foreign exchange gain (loss)</b>	<b>(21,466)</b>	<b>(44,085)</b>
Net increase (decrease) in cash	4,068,194	475,917
Cash at beginning of year	440,405	8,573
<b>Cash at end of year</b>	<b>4,487,133</b>	<b>440,405</b>
<b>Supplemental cash flow information:</b>		
Dividends received, net of withholding taxes	341,736	99,163
Interest received	3,960	67,309

See accompanying notes

## LDIC North American Small Business Fund (Corporate Class)

### Schedule of Investment Portfolio

As at December 31, 2021

Number of shares		Expiry date date	Average cost \$	Fair value \$	Percentage of net assets %
<b>Canadian Equities</b>					
<b>Communication Services</b>					
132,585	Thunderbird Entertainment Group Inc.		173,692	580,722	
			173,692	580,722	2.84
<b>Consumer Discretionary</b>					
17,000	AutoCanada Inc.		523,830	725,900	
19,000	Park Lawn Corp.		488,687	788,500	
			1,012,517	1,514,400	7.40
<b>Consumer Staples</b>					
100,800	CareRx Corp.		471,004	573,552	
85,000	Waterloo Brewing Ltd.		311,050	493,850	
			782,054	1,067,402	5.21
<b>Energy</b>					
135,000	Birchcliff Energy Ltd.		419,931	872,100	
23,300	Parex Resources Inc.		432,100	503,513	
75,000	Tamarack Valley Energy Ltd.		201,641	288,750	
21,000	Tourmaline Oil Corp.		294,167	857,640	
100,000	Whitecap Resources Inc.		457,633	749,000	
			1,805,472	3,271,003	15.97
<b>Financials</b>					
14,000	Canadian Western Bank		510,741	508,200	
35,000	Chesswood Group Ltd.		433,875	503,650	
45,000	ECN Capital Corp.		113,928	240,300	
13,500	Home Capital Group Inc.		549,108	527,445	
17,600	Trisura Group Ltd.		364,950	839,344	
			1,972,602	2,618,939	12.79
<b>Health Care</b>					
50,000	CloudMD Software & Services Inc., Warrants	02-Jun-22	—	17,125	
181,000	DionyMed Brands Inc., Warrants	07-May-22	—	—	
178,000	Hemptown Organics Corp.		400,500	89,000	
89,000	Hemptown Organics Corp., Warrants	30-Aug-22	—	—	
			400,500	106,125	0.52

## LDIC North American Small Business Fund (Corporate Class)

### Schedule of Investment Portfolio

As at December 31, 2021

Number of shares	Expiry date date	Average cost \$	Fair value \$	Percentage of net assets %
<b>Industrial</b>				
8,000	Calian Group Ltd.	396,798	492,320	
3,000	Cargojet Inc.	318,892	499,710	
12,500	GDI Integrated Facility Services Inc.	502,651	672,625	
18,000	Hardwoods Distribution Inc.	533,809	806,400	
		<u>1,752,150</u>	<u>2,471,055</u>	12.06
<b>Information Technology</b>				
42,000	Converge Technology Solutions Corp.	97,106	456,540	
7,000	Docebo Inc.	370,564	594,090	
2,850	Kinaxis Inc.	310,675	505,391	
5,000	Lightspeed Commerce Inc.	232,877	255,400	
		<u>1,011,222</u>	<u>1,811,421</u>	8.85
<b>Materials</b>				
150,000	Copper Mountain Mining Corp.	354,870	513,000	
14,000	Interfor Corp.	496,707	567,140	
		<u>851,577</u>	<u>1,080,140</u>	5.27
<b>Real Estate</b>				
45,700	Nexus Real Estate Investment Trust	531,292	576,734	
131,900	StorageVault Canada Inc.	330,869	950,999	
		<u>862,161</u>	<u>1,527,733</u>	7.46
<b>Total Canadian Equities</b>		<u>10,623,947</u>	<u>16,048,940</u>	<u>78.37</u>
<b>Total Equities</b>		<u>10,623,947</u>	<u>16,048,940</u>	<u>78.37</u>
<b>Transaction Costs</b>		<u>(24,179)</u>		
<b>Total Investments</b>		<u>10,599,768</u>	<u>16,048,940</u>	<u>78.37</u>
Other assets less liabilities			4,429,207	21.63
<b>Net Assets Attributable to Holders of Redeemable Units</b>			<u>20,478,147</u>	<u>100.00</u>

## **LDIC North American Small Business Fund (Corporate Class)**

### **Notes to financial statements**

December 31, 2021

#### **1. General information**

The LDIC North American Small Business Fund (Corporate Class) [the “Fund”] is a class of shares of LDIC Mutual Fund Corporation Inc. The investment objective of the Fund is principally to provide long-term capital appreciation and income by investing primarily in equity and fixed income securities of small capitalization companies based in North America. The address of the Fund’s registered office is LDIC Inc., 10, Alcorn Ave., Suite 205, Toronto, Ontario. These financial statements were authorized for issue by LDIC Inc. [the “Manager”] on March 23, 2022.

The Fund may create an unlimited number of series of shares, and may offer and sell an unlimited number of shares of each series. Currently, the Fund offers Series A shares, Series F shares and Series F1 shares. The capital received by the Fund is utilized within the investment mandate of the Fund. This includes the ability to make liquidity to satisfy shareholders’ share redemption requirements upon the shareholders’ request. The Fund is not subject to any externally imposed capital requirements.

Series A shares are designed for retail investors. Dealers through whom Series A shares are purchased will receive initial commissions payable by the investor and ongoing service fees [also called “trailer fees” or “trailing commissions”] from the Manager on behalf of the Fund. The inception date for Series A is May 29, 2015.

Series F shares are designed for investors who participate in fee-based investment programs offered by their dealers. Series F shares are only available to investors whose dealer has entered into an agreement with the Manager to make Series F shares available to clients of that dealer. The inception date for Series F is May 22, 2015.

Series F1 shares are designed for investors who participate in fee-based investment programs offered by their dealers. Series F1 shares are only available to investors whose dealer has entered into an agreement with the Manager to make Series F1 shares available to clients of that dealer. The inception date for Series F1 is May 31, 2016.

#### **2. Basis of presentation**

These financial statements of the Fund have been prepared in compliance with International Financial Reporting Standards [“IFRS”] as published by the International Accounting Standards Board [“IASB”].

The policies applied in these financial statements are based on IFRS issued and outstanding as of March 23, 2022, which is the date on which the financial statements were authorized for issue by the Manager.

In the preparation of these financial statements, management has made judgments, estimates and assumptions that affect the application of the Fund’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The financial statements of the Fund have been prepared on a going concern basis using the historical cost basis. The Fund’s functional currency and presentation currency is the Canadian dollar.

## LDIC North American Small Business Fund (Corporate Class)

### Notes to financial statements

December 31, 2021

#### 3. Summary of significant accounting policies

##### [a] IFRS 9, *Financial Instruments*

The Fund classifies its financial instruments as amortized cost, fair value through profit or loss ["FVTPL"], or fair value through other comprehensive income ["FVOCI"] based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of these assets. Assessment and decision on the business model approach used is an accounting judgment. The classification and measurement of financial liabilities remain generally unchanged with the exception of liabilities recorded at FVTPL. For these liabilities, fair value changes attributable to changes in the entity's own credit risk are to be presented in other comprehensive income unless they affect amounts recorded in income. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amounts required to be received or paid, discounted when appropriate, at the financial instrument's effective interest rate.

The fair values of the Fund's financial assets and liabilities that are not carried at FVTPL approximate their carrying amounts due to their short-term nature.

##### [b] Foreign currency translation

The Fund's functional and presentation currency is the Canadian dollar. Foreign currency purchases and sales of investments and foreign currency dividend and interest income and expenses are translated into Canadian dollars at the rate of exchange prevailing at the date of the transactions.

Foreign exchange gains (losses) on purchases and sales of foreign currencies are included in "Foreign exchange gain (loss)" in the Statements of Comprehensive Income (Loss).

The fair values of investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing as at the Statement of Financial Position date.

##### [c] Fair value measurements

Financial instruments are valued at their fair value, which is defined as 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 is 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.

The Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Level 1 – quoted prices [unadjusted] in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in 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].

## **LDIC North American Small Business Fund (Corporate Class)**

### **Notes to financial statements**

December 31, 2021

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

A valuation hierarchy table has been included in Note 10, Fair Value Disclosure.

#### **[d] Impairment of financial assets**

The Fund recognize a loss allowance for expected credit losses on financial assets that are measured at amortized cost or FVOCI. Financial assets held by the Fund that are measured at FVTPL will not be subject to the new impairment requirements.

With respect to loans and receivables, the Fund considers both historical analysis and forward-looking information in determining any expected credit loss. As at the year-end date, all loans and receivables are due to be settled within the short term. The Fund 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 obligation in the near term. Given the limited exposure of the Fund to credit risk, no loss allowance has been recognized as any such impairment will not have a significant impact on the financial statements.

#### **[e] Cash**

Cash consists of cash held on deposit with financial institutions with maturity dates of less than 30 days.

#### **[f] Multi-series allocation**

Expenses, realized and unrealized gains/losses and income generally are allocated among the series on a pro-rata basis.

Series-specific management fees are not allocated and do not require allocation.

#### **[g] Transaction costs**

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities, are expensed and are included in "Transaction costs" in the Statements of Comprehensive Income (Loss).

#### **[h] Share valuation and valuation date**

Shares are issued and redeemed on a continuing basis at the Net Assets attributable to holders of redeemable shares, which is determined for each series of shares of the Fund on each valuation day. A "valuation day" is any day that the Toronto Stock Exchange is open for business, unless the Fund is not accepting orders to purchase, switch or redeem shares on that day [in the circumstances described in simplified prospectus for the Fund in the section called "Purchases and redemptions"]. To determine the net asset value ["NAV"] per share for a series of shares of a Fund, the Manager or its agent determines the value of the proportionate share of the assets of the Fund attributable to the particular series less the liabilities of the Fund attributed to only that series and the proportionate share of the common liabilities of the Fund allocated to that series. This amount is then divided by the total number of shares of that series then held by investors.

## LDIC North American Small Business Fund (Corporate Class)

### Notes to financial statements

December 31, 2021

#### **[i] Investment transactions**

Investment transactions are accounted for on the trade date. All income, net realized gains (losses), unrealized appreciation (depreciation) in the value of investments and transaction costs are attributable to investments that are deemed held for trading.

#### **[j] Revenue recognition**

- The interest for distribution purposes shown on the Statements of Comprehensive Income (Loss) 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.
- Dividend income is recorded on the ex-dividend date and is gross of withholding taxes.
- Realized gains and losses on investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments.

#### **[k] Increase (decrease) in Net Assets attributable to holders of redeemable shares per share**

The increase (decrease) in Net Assets attributable to holders of redeemable shares per share in the Statements of Comprehensive Income (Loss) represents the net increase (decrease) in Net Assets attributable to holders of redeemable shares per share, divided by the weighted average number of shares outstanding during the year of that series of shares.

#### **[l] Critical accounting estimates and judgments**

- Fair value measurements of financial instruments not quoted in an active market

The Fund may hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources [such as pricing agencies] or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. When no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry.

- Classification and measurement of financial instruments and application of fair value option

In classifying and measuring financial instruments held by the Funds, the Manager has assessed the Funds' business model for managing their respective portfolios of investments and evaluating the performance on a fair value basis and concluded that these financial assets and liabilities should be measured at FVTPL in accordance with IFRS 9.

## LDIC North American Small Business Fund (Corporate Class)

### Notes to financial statements

December 31, 2021

- Investment Entity

In determining whether a Fund meets the definition of an investment entity, the Manager may be required to make significant judgments about whether a Fund has the typical characteristics of an investment entity. The Fund may hold only one investment, an underlying fund (or have only one investor or have investors that are its related parties); however, consistent with the investment entity definition, the Fund primarily obtains funds from one or more investors for the purpose of providing investment management services, commits to its investors that the business purpose is to invest the funds solely for returns from capital appreciation, investment income or both, and measures and evaluates the performance of its investments on a fair value basis.

#### **[m] Provisions**

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

#### **[n] Financial assets derecognition**

A financial asset [or, where applicable, a part of a financial asset or part of Fund of similar financial assets] is primarily derecognised [i.e., removed from Fund's statements of financial position] when:

- The rights to receive cash flows from the asset have expired; or
- Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) Fund has transferred substantially all the risks and rewards of the asset; or (b) Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, Fund continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

## LDIC North American Small Business Fund (Corporate Class)

### Notes to financial statements

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Financial assets are written off either partially or in their entirety only when the Corporation has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to provisions for losses.

#### 4. Redeemable shares

The shares of the Fund are issued and redeemed at their Net Assets attributable to holders of redeemable shares per share. Net Assets attributable to holders of redeemable shares per series per share is determined on a daily basis by dividing the Fund's Net Assets attributable to holders of redeemable shares per series by the total number of shares of the series of the Fund that are outstanding on such valuation date.

The Fund has no restrictions or specific capital requirements on the issuance and redemptions of shares. In accordance with its investment objectives, strategies and risk management practices, the Fund endeavours to invest the amounts received on issuance of shares in appropriate investments in order to maximize shareholder value and maintain financial strength while preserving sufficient liquidity to meet redemptions.

During the year, share transactions of the Fund were as follows:

	2021		
	Series A	Series F	Series F1
	\$	\$	\$
Outstanding at beginning of year	44,067	756,790	488,019
Redeemable shares issued	875	—	39,378
Redeemable shares redeemed	(1,062)	(24,297)	(58,630)
Outstanding at end of year	43,880	732,493	468,767

  

	2020		
	Series A	Series F	Series F1
	\$	\$	\$
Outstanding at beginning of year	80,151	915,425	400,229
Redeemable shares issued	470	—	179,362
Redeemable shares redeemed	(36,554)	(158,635)	(91,572)
Outstanding at end of year	44,067	756,790	488,019

#### 5. Related party transactions

As at December 31 2021, the Manager of the Fund and certain Directors and Officers of the Manager held a total of 280,861 [2020 – 270,072] Series F shares and 58,894 [2020 – 83,262] Series F1 shares of the Fund.

## LDIC North American Small Business Fund (Corporate Class)

### Notes to financial statements

December 31, 2021

#### Management fees and expenses

The Manager provides investment and administrative services to the Fund. In consideration for these services, the Manager receives a fee based on a percentage of the Net Assets of the Fund calculated daily and payable monthly, as follows:

- Series A – 2.00% per annum
- Series F – 1.00% per annum
- Series F1 – 1.50% per annum

The Fund is responsible for the payment of all expenses relating to its operations and the carrying on of its business. These expenses include, but are not limited to, administration and accounting costs, the costs of any back-office service provider retained by the Manager, transaction costs, audit and legal fees, custodian fees, index licensing fees, regulatory filing fees, the costs of preparing and distributing annual and semi-annual financial statements, prospectuses, shareholder reports and investor communications. At certain times, the Manager may pay a portion of the expenses otherwise payable by the Fund.

At its sole discretion, the Manager may stop absorbing operating expenses and/or waiving management fees at any time. Operating expenses absorbed and/or management fees waived by the Manager are disclosed on the Statements of Comprehensive Income (Loss).

The Fund will pay a performance fee to the Manager, plus applicable taxes, at the end of each fiscal year. The performance fee will be 15% of the amount by which the series NAV at the end of the fiscal year [the “ending NAV”] exceeds the target NAV. The target NAV is calculated by multiplying the Series NAV, net of performance fees paid, as at the last performance fee payment date [the “beginning NAV”] by the sum of one plus the return of the Fund’s “benchmark” [the “benchmark return”] over the same period.

#### 6. Taxation of the Fund and allocation to shareholders

LDIC Mutual Fund Corporation Inc. [the “Fund”] qualifies as a mutual fund corporation under the *Income Tax Act* (Canada) [the “Act”]. The general income tax rules associated with a public corporation also apply to a mutual fund corporation, with the exception that income taxes payable on realized capital gains are refundable on a formula basis when shares are redeemed or capital gains dividends are paid. The Corporation is a single legal entity for tax purposes and is not taxed on a fund-by-fund or class-by-class basis.

## **LDIC North American Small Business Fund (Corporate Class)**

### **Notes to financial statements**

December 31, 2021

The Corporation has a tax year-end of December 31. All of the Fund's expenses, including expenses common to all series of the Fund and management fees and other expenses specific to a particular series of a Fund, will be taken into account in determining the income or loss of the Corporation as a whole. Similarly, all of the Fund's revenues, deductible expenses, capital gains and capital losses and other items relevant to the tax position will be taken into account in determining the income or loss of the Corporation and applicable taxes payable, including refundable capital gains taxes, by the Corporation as a whole. Similarly, the Fund is subject to Part IV tax on dividends received from Canadian corporations; however, they are refundable once paid to shareholders. As a result, the Fund does not record income taxes related to capital gains and dividends from Canadian corporations. Interest and foreign income are taxed at normal corporate rates applicable to mutual fund corporations and can be reduced by permitted deductions for tax purposes. All of the Fund's expenses, including management fees and operating expenses, will be taken into account in determining its overall tax liability, if any. Funds may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests.

When capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date. The Fund did not have accumulated capital loss carryforwards as at December 31, 2021 and 2020. The Fund has accumulated non-capital loss carryforwards as at December 31, 2021 of \$555,829 [2020 – \$927,020].

#### **7. Transaction costs**

Commissions and other transaction fees paid for portfolio transactions for year ended December 31, 2021 were \$115,961 [2020 – \$108,356].

#### **8. Soft dollar commissions**

In addition to covering brokerage services on security transactions, commissions paid to certain brokers may also cover research services provided to the Manager. The value of the research services included in the commissions paid by the Fund to those brokers for the years ended December 31, 2021 and 2020 was \$19,191 and \$24,085, respectively.

#### **9. Financial risk management**

In the normal course of operations, the Fund's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk [which includes interest rate risk, currency risk, other price risk and concentration risk]. The value of investments in a Fund's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions and market news related to specific securities in the portfolio. The level of risk depends on the Fund's objectives and the type of securities that it holds. In order to mitigate risk, depending on conditions, the Manager diversifies the portfolio based on criteria such as asset class, country, industry and currency. Significant risks that are relevant to the Fund are discussed below. "Net Assets" below is defined as Net Assets attributable to holders of redeemable shares.

## LDIC North American Small Business Fund (Corporate Class)

### Notes to financial statements

December 31, 2021

#### **[a] Credit risk**

Credit risk represents the potential loss that the Fund would incur if counterparties failed to perform in accordance with the terms of their obligations to the Fund. The Manager only trades with approved counterparties and monitors reporting that includes approved counterparty listings, trade volumes and exposure reports. The risk of default is considered minimal, as delivery of securities sold is only made once the Fund has received payment.

Payment is made on a purchase once the securities have been received by the Fund. The trade will fail if either party fails to meet its obligation. The Fund maintains all of its cash and cash equivalents at the custodian or in overnight deposits with approved counterparties and ensures that appropriate collateral is received.

As at December 31, 2021 and 2020, the Fund had not directly invested in debt instruments.

#### **[b] Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations associated with its financial liabilities. The Fund's primary exposure to liquidity risk relates to its shareholders' rights to redeem their shares on any valuation date. Liquidity risk is managed by retaining sufficient cash and cash equivalent positions and investing the majority of the Fund's assets in portfolio investments that are traded in an active market and can be readily disposed of. There can be no assurance that an active trading market for the investments will exist at all times, or that the prices at which the securities trade accurately reflect their values.

Thin trading in a security could make it difficult to liquidate holdings quickly. The Manager considers market depth and the relationship between liquidity and size of the position as part of the criteria for approval of a new investment and in its periodic re-evaluation of the investment.

#### **[c] Market risk**

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund's activities may expose it to different types of market risk including currency risk, interest rate risk, other price risk and concentration risk.

##### *(i) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises on interest-bearing financial instruments.

As at December 31, 2021 and 2020, the Fund had no direct exposure to debt instruments and the majority of the financial instruments held by the Fund are non-interest bearing.

## LDIC North American Small Business Fund (Corporate Class)

### Notes to financial statements

December 31, 2021

*(ii) Currency risk*

Currency risk is the risk that the fair value of financial instruments denominated in currencies other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate because of changes in foreign exchange rates.

	December 31, 2021		December 31, 2020	
	Currency exposure	Percentage of net assets	Currency exposure	Percentage of net assets
	\$	%	\$	%
U.S. dollar	990,667	4.8	2,171,739	11.1

As at December 31, 2021, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies represented in the portfolio, with all other variables remaining constant, Net Assets would have decreased or increased by approximately \$49,533 [December 31, 2020 – \$108,587]. In practice, the actual results may differ and the difference could be material.

*(iii) Other price risk*

Other price risk represents the risk that the value of financial instruments will fluctuate as a result of changes in market prices [other than those arising from interest rate risk or currency risk], whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment.

The Fund is exposed to other price risk from investments in equities. As at December 31, 2021, approximately 78.4% [December 31, 2020 – 99.6%] of the Fund's Net Assets were held directly in equities. If equity prices on the exchanges increased or decreased by 5% as at December 31, 2021, the Net Assets of the Fund would have increased or decreased by approximately \$802,447 or 3.9% [December 31, 2020 – \$973,123 or 5.0%] with all other factors remaining constant. In practice, the actual results may differ and the difference could be material.

*(iv) Concentration risk*

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

## LDIC North American Small Business Fund (Corporate Class)

### Notes to financial statements

December 31, 2021

The following is a summary of the Fund's concentration risk:

Investment sector	December 31, 2021 %	December 31, 2020 %
Communication services	2.8	6.7
Consumer discretionary	7.4	4.1
Consumer staples	5.2	5.0
Energy	16.0	6.7
Financials	12.8	4.0
Health care	0.5	13.3
Industrial	12.1	23.9
Information technology	8.8	22.2
Materials	5.3	4.5
Real estate	7.5	3.2
Funds	—	6.0
Net other assets/liabilities	21.6	0.4
Total	100.0	100.0

#### 10. Fair value disclosure

The following tables illustrate the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2021 and 2020:

##### Financial assets (liabilities) at fair value as at December 31, 2021

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities	15,942,815	—	89,000	16,031,815
Warrants	17,125	—	—	17,125
	15,959,940	—	89,000	16,048,940

##### Financial assets (liabilities) at fair value as at December 31, 2020

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities	19,065,158	—	329,300	19,394,458
Warrants	68,000	—	—	68,000
	19,133,158	—	329,300	19,462,458

## LDIC North American Small Business Fund (Corporate Class)

### Notes to financial statements

December 31, 2021

The following is a reconciliation of investments in which significant unobservable inputs [Level 3] were used to determine their fair value:

	Bonds \$	Equities \$
Balance as at December 31, 2020	—	329,300
Change in unrealized appreciation (depreciation) on investments	—	(240,300)
Balance as at December 31, 2021	—	89,000
<b>Net change in unrealized appreciation from investments as at December 31, 2021</b>	<b>—</b>	<b>(240,300)</b>
	Bonds \$	Equities \$
Balance as at December 31, 2019	518,699	400,500
Sales	(510,901)	—
Realized gains (loses)	(23,301)	—
Change in unrealized appreciation (depreciation) on investments	15,503	(71,200)
Balance as at December 31, 2020	—	329,300
<b>Net change in unrealized appreciation from investments as at December 31, 2020</b>	<b>—</b>	<b>(71,200)</b>

The Fund Manager of the Fund is responsible for performing the valuation of the fair value measurements included in the financial statements, including the Level 3 fair values. As at December 31, 2021 and 2020, the fair values of Level 3 securities held by the Fund comprised the following securities and the unobservable inputs used in the fair value measurement of these investments were as follows:

Investment name	December 31, 2021		
	Fair value \$	Valuation technique	Unobservable inputs
Hemptown Organics Corp.	89,000	Recent transactions	N/A
Total	89,000		
	December 31, 2020		
Investment name	Fair value \$	Valuation technique	Unobservable inputs
Hemptown Organics Corp.	329,000	Recent transactions	N/A
Total	329,000		

There is no sensitivity impact to the fair value of Level 3 securities.

## **LDIC North American Small Business Fund (Corporate Class)**

### **Notes to financial statements**

December 31, 2021

#### **11. Capital management**

The investment objective of the Fund is to provide long-term capital appreciation and income by investing primarily in equity and fixed-income securities of small capitalization companies based in North America. The capital of the Fund is divided into three series, Series A, Series F and Series F1, with each series having an unlimited number of shares. The shares issued and outstanding represent the capital of the Fund, and shareholders are entitled to distributions when declared.

The Fund manages its capital in accordance with the investment objectives and strategies and the risk management practices outlined in Note 9, Financial Risk Management. The Manager actively monitors the cash position and financial performance to ensure sufficient liquidity to meet operating expenses, distributions and redemptions.

#### **12. Impact of COVID-19**

In March 2020, the World Health Organization declared a pandemic with regards to the global outbreak of COVID-19, which resulted in governments around the world issuing directives and establishing quarantine measures in their respective jurisdictions to help manage and control the spread of the virus.

As at the reporting date, any impact on the balances due to the ongoing COVID-19 pandemic has been appropriately accounted for in accordance with the reporting framework. Management does not believe there is any risk to the Fund's ability to continue as a going concern for the foreseeable future from the reporting date linked to the COVID-19 pandemic.

The COVID-19 global pandemic is likely to have an ongoing effect on the financial markets where the Fund operates. The Fund's Manager performs routine risk assessment procedures and robust controls over its accounts, balances, and transactions through to the date these financial statements were available to be issued and concluded that no additional subsequent events occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

#### **13. Subsequent events**

The Fund has evaluated events subsequent to December 31, 2021 through to the date of approval of the financial statements by the Board of Directors for disclosure and has determined that there were no events that should be disclosed in these financial statements. Also, the Board of Directors has determined that no exposure to Russian and Ukrainian securities as at reporting date and It is unclear what further actions may be taken by governments and the resulting impact on global economies, businesses, and financial markets. While the situation remains fluid, the Fund continues to monitor ongoing developments and the impact to investment strategies.