



LDIC North American Small Business Fund (Corporate Class)

Financial Statements

December 31, 2018

LDIC North American Small Business Fund (Corporate Class)

Statements of Financial Position

As at December 31,

	2018	2017
Assets		
Current assets		
Financial assets at fair value through profit or loss (note 3)	\$ 26,655,783	\$ 27,245,098
Cash	6,335,519	5,032,178
Accrued dividends	50,136	45,604
Accrued interest	-	7,470
Receivables for investments sold	13,968	-
Subscriptions receivable	4,500	-
Other receivable	-	60,466
Total assets	33,059,906	32,390,816
Liabilities		
Current liabilities		
Financial liabilities at fair value through profit or loss (note 3)	1,124,400	550,528
Performance fees	583,401	493,949
Accrued expenses	105,746	98,459
Dividends payable	2,440	3,936
Payable for investments purchased	19,739	-
Management fees payable	39,504	33,819
Total liabilities (excluding Net Assets attributable to holders of redeemable shares)	1,875,230	1,180,691
Net Assets attributable to holders of redeemable shares (note 4)	\$ 31,184,676	\$ 31,210,125
Net Assets attributable to holders of redeemable shares per series		
Series A	\$ 4,245,997	\$ 4,689,792
Series F	\$ 11,539,264	\$ 13,299,194
Series F1	\$ 15,399,415	\$ 13,221,139
Net Assets attributable to holders of redeemable shares per series per share (note 4)		
Series A	\$ 11.17	\$ 13.34
Series F	\$ 11.52	\$ 13.62
Series F1	\$ 11.43	\$ 13.60

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/ Beryl McCallum

Beryl McCallum, Director

LDIC North American Small Business Fund (Corporate Class)

Statements of Comprehensive Income

For the years ended December 31,

	2018	2017
Net gain (loss) on financial instruments		
Dividend income	\$ 411,282	\$ 294,002
Interest for distribution purposes	55,399	12,650
Dividends paid on investments sold short	(20,603)	(12,515)
Foreign exchange gain (loss)	(1,860)	29,188
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	2,727,845	3,469,841
Change in unrealized appreciation (depreciation) in value of investments	(4,687,136)	2,073,334
Change in unrealized appreciation (depreciation) in value of foreign exchange from currency	1,371	(14,344)
Net gain (loss) on financial instruments	(1,513,702)	5,852,156
Expenses (note 5)		
Performance fees	595,608	499,274
Management fees	538,041	387,496
Custodian fees	8,368	8,245
Audit fees	22,071	20,173
Legal fees	11,157	15,879
Valuation fees	35,700	33,027
Independent review committee fees	3,348	3,304
Transaction costs (note 7)	360,179	301,214
Filing fees	20,964	22,250
Securityholder reporting costs	19,280	13,865
Other expenses	96,355	59,847
Total operating expenses	1,711,071	1,364,574
Operating profit (loss)	(3,224,773)	4,487,582
Withholding taxes (note 6)	(132)	(1,624)
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)	\$ (3,224,905)	\$ 4,485,958
Increase (decrease) in Net Assets attributable to holders of redeemable shares per series from operations (excluding distributions)		
Series A	\$ (484,238)	\$ 620,664
Series F	\$ (1,124,917)	\$ 2,040,100
Series F1	\$ (1,615,750)	\$ 1,825,194
Average number of shares outstanding for the period per series		
Series A	386,361	307,821
Series F	1,002,802	977,438
Series F1	1,304,015	813,991
Increase (decrease) in Net Assets attributable to holders of redeemable shares per share from operations (excluding distributions)		
Series A	\$ (1.25)	\$ 2.02
Series F	\$ (1.12)	\$ 2.09
Series F1	\$ (1.24)	\$ 2.24

The accompanying notes are an integral part of these financial statements

LDIC North American Small Business Fund (Corporate Class)
Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares
For the years ended December 31,

	2018		2017	
	Series A		Series F	
Net Assets attributable to holders of redeemable shares at beginning of year	\$	4,689,792	\$	2,842,989
			\$	13,299,194
				11,635,004
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)		(484,238)		620,664
				(1,124,917)
				2,040,100
Redeemable share transactions				
Proceeds from redeemable shares issued		708,930		2,062,162
Redemption of redeemable shares		(599,579)		(779,800)
Reinvestments of distributions to holders of redeemable shares		266,458		216,466
		375,809		1,498,828
				308,912
				629,436
Distributions to holders of redeemable shares				
From net investment income		(52,549)		(65,343)
From net realized capital gains		(282,817)		(207,346)
		(335,366)		(272,689)
				(943,925)
				(1,005,346)
Net increase (decrease) in Net Assets attributable to holders of redeemable shares		(443,795)		1,846,803
				(1,759,930)
				1,664,190
Net Assets attributable to holders of redeemable shares at end of year	\$	4,245,997	\$	4,689,792
			\$	11,539,264
				13,299,194

	2018		2017	
	Series F1		Total	
Net Assets attributable to holders of redeemable shares at beginning of year	\$	13,221,139	\$	5,269,642
			\$	31,210,125
				19,747,635
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)		(1,615,750)		1,825,194
				(3,224,905)
				4,485,958
Redeemable share transactions				
Proceeds from redeemable shares issued		5,687,276		7,080,407
Redemption of redeemable shares		(1,875,191)		(941,417)
Reinvestments of distributions to holders of redeemable shares		984,918		593,174
		4,797,003		6,732,164
				5,481,724
				8,860,428
Distributions to holders of redeemable shares				
From net investment income		(190,203)		(175,838)
From net realized capital gains		(812,774)		(430,023)
		(1,002,977)		(605,861)
				(2,282,268)
				(1,883,896)
Net increase (decrease) in Net Assets attributable to holders of redeemable shares		2,178,276		7,951,497
				(25,449)
				11,462,490
Net Assets attributable to holders of redeemable shares at end of year	\$	15,399,415	\$	13,221,139
			\$	31,184,676
				31,210,125

The accompanying notes are an integral part of these financial statements

LDIC North American Small Business Fund (Corporate Class)

Statements of Cash Flows

For the years ended December 31,

	2018	2017
Cash flows from (used in) operating activities		
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)	\$ (3,224,905)	\$ 4,485,958
Adjustments for:		
Foreign exchange (gain) loss	1,860	(29,188)
Net realized (gain) loss on sale of investments	(2,727,845)	(3,469,841)
Change in unrealized (appreciation) depreciation in value of investments	4,687,136	(2,073,334)
Purchases of investments	(52,785,884)	(42,922,615)
Proceeds from sale of investments	51,995,551	40,289,672
Accrued dividends	(4,532)	245
Accrued interest	7,470	(7,470)
Other receivable	60,466	(60,466)
Performance fees	89,452	493,949
Accrued expenses	7,287	852
Dividends payable	(1,496)	3,936
Management fees payable	5,685	14,259
Net cash from (used in) operating activities	(1,889,755)	(3,274,043)
Cash flows from (used in) financing activities		
Distributions paid to holders of redeemable shares, net of reinvested distributions	(91,258)	(86,881)
Proceeds from redeemable shares issued	6,389,791	9,148,394
Redemption of redeemable shares	(3,103,577)	(2,079,156)
Net cash from (used in) financing activities	3,194,956	6,982,357
Foreign exchange gain (loss)	(1,860)	29,188
Net increase (decrease) in cash	1,305,201	3,708,314
Cash at beginning of year	5,032,178	1,294,676
Cash at end of year	\$ 6,335,519	\$ 5,032,178
Supplemental Cash Flow Information:		
Dividends received, net of withholding taxes	\$ 406,618	\$ 292,623
Dividends paid on investments sold short	(22,099)	(8,579)
Interest received	62,869	5,180

LDIC North American Small Business Fund (Corporate Class)

Schedule of Investment Portfolio

As at December 31, 2018

Par Value/ Number of Shares	Description	Maturity Date/ Expiry Date	Coupon Rate	Average Cost (\$)	Fair Value (\$)	% of Net Assets
Bonds						
U.S. Corporate Bonds						
400,000	Central Coast Agriculture LLC	December 13, 2020	8.000%	534,202	546,321	
Total Bonds				<u>534,202</u>	<u>546,321</u>	<u>1.8</u>
Equities - Long						
Canadian Equities						
Consumer Discretionary						
75,000	AutoCanada Inc.			921,528	851,250	
149,600	Avante Logixx Inc.			330,990	291,720	
50,000	Gamehost Inc.			560,556	466,000	
35,000	Park Lawn Corp.			706,077	807,100	
60,000	Points International Ltd.			988,898	817,200	
40,200	Pollard Banknote Ltd.			617,145	826,110	
				<u>4,125,194</u>	<u>4,059,380</u>	<u>13.0</u>
Consumer Staples						
265,000	Brick Brewing Co., Ltd.			1,048,762	742,000	
11,500	Premium Brands Holdings Corp.			820,688	860,890	
100,000	Village Farms International Inc			569,456	442,000	
				<u>2,438,906</u>	<u>2,044,890</u>	<u>6.6</u>
Energy						
100,000	Kelt Exploration Ltd.			461,430	464,000	
80,000	North American Construction Group Ltd.			960,433	972,000	
				<u>1,421,863</u>	<u>1,436,000</u>	<u>4.6</u>
Communication Services						
174,300	Kew Media Group Inc.			1,565,821	876,729	2.8
Health Care						
235,200	Akumin Inc.			1,107,004	1,085,781	
45,000	Chartwell Retirement Residences			641,603	615,150	
110,000	Knight Therapeutics Inc.			891,194	845,900	
55,000	Planet 13 Holdings Inc., Warrants	December 4, 2023		24,189	13,200	
150,000	Profound Medical Corp., Warrants	March 20, 2023		-	-	
90,000	Reliq Health Tech, Warrants	January 9, 2020		-	-	
				<u>2,663,990</u>	<u>2,560,031</u>	<u>8.2</u>
Industrials						
22,000	AG Growth International Inc.			1,223,854	1,029,600	
35,000	Badger Daylighting Ltd.			927,810	1,128,750	
16,000	Cargojet Inc.			774,039	1,132,640	
80,000	Hardwoods Distribution Inc.			1,238,555	879,200	
300,000	Horizon North Logistics Inc.			723,083	540,000	
22,000	K-Bro Linen Inc.			833,082	735,680	
108,900	People Corp.			508,100	793,337	
351,400	Titanium Transportation Group Inc.			554,545	449,792	
				<u>6,783,068</u>	<u>6,688,999</u>	<u>21.5</u>
Information Technology						
152,778	Alithya Group Inc.			687,501	488,890	
267,000	Baylin Technologies Inc.			705,148	1,017,270	
178,400	Firan Technology Group Corp.			546,427	376,424	
338,500	Nubeva Technologies Ltd.			283,741	138,785	
76,600	Sylogist Ltd.			725,673	958,266	
40,000	TECSYS Inc.			431,293	494,400	
				<u>3,379,783</u>	<u>3,474,035</u>	<u>11.1</u>

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As at December 31, 2018

Par Value/ Number of Shares	Description	Average Cost (\$)	Fair Value (\$)	% of Net Assets
Materials				
269,700	5N Plus Inc.	756,620	836,070	
70,000	Altius Minerals Corp.	834,444	756,700	
		<u>1,591,064</u>	<u>1,592,770</u>	<u>5.1</u>
Real Estate				
75,000	Information Services Corp.	1,315,500	1,147,500	
300,000	StorageVault Canada Inc.	500,889	711,000	
		<u>1,816,389</u>	<u>1,858,500</u>	<u>6.0</u>
U. S. Equities				
Financials				
25,000	Currency Exchange International Corp.	641,414	668,750	2.1
Information Technology				
10,000	Tucows Inc.	725,192	819,700	2.6
Materials				
20,900	Geodrill Ltd.	49,901	29,678	0.1
Transaction costs				
		(72,649)		
Total Equities - Long				
		<u>27,129,936</u>	<u>26,109,462</u>	<u>83.7</u>
Equities - Short				
Canadian Equities				
Consumer Staples				
(55,000)	SunOpta Inc.	(491,222)	(290,400)	
(40,000)	High Liner Foods Inc.	(334,961)	(306,400)	
(100,000)	Input Capital Corp.	(137,895)	(85,000)	
		<u>(964,078)</u>	<u>(681,800)</u>	<u>(2.2)</u>
Financials				
(40,000)	Canaccord Genuity Group Inc.	(245,756)	(230,800)	(0.7)
Industrials				
(6,000)	TFI International Inc.	(253,216)	(211,800)	(0.7)
Transaction costs				
		(4,586)		
Total Equities - Short				
		<u>(1,467,636)</u>	<u>(1,124,400)</u>	<u>(3.6)</u>
Total Equities				
		<u>25,662,300</u>	<u>24,985,062</u>	<u>80.1</u>
Total Investments				
		<u>26,196,502</u>	<u>25,531,383</u>	<u>81.9</u>
Other Assets, Less Liabilities				
			<u>5,653,293</u>	<u>18.1</u>
Net Assets Attributable to Holders of Redeemable Shares				
			<u>\$ 31,184,676</u>	<u>100.0</u>

LDIC North American Small Business Fund (Corporate Class)

Notes to Financial Statements

December 31, 2018 and 2017

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., 130 King Street West, Suite 2130, Toronto, Ontario. These financial statements were authorized for issue by LDIC Inc. (the “Manager”) on February 28th, 2019.

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 on-going 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 standards issued and outstanding as of February 28th, 2019, which is the date on which the annual 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.

These financial statements have been presented in Canadian dollars, which is the Fund’s functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) IFRS – 9 Financial Instruments Transition

Effective January 1, 2018 the Fund adopted IFRS 9, Financial Instruments - Classification and Measurement (“IFRS 9”). The new standard requires financial assets to be classified 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 judgement.

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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. The Fund's obligation for Net Assets attributable to holders of redeemable shares is presented at the redemption amount. 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 Fund's accounting policies for measuring the fair value of its investments are identical to those used in measuring its published Net Asset Value ("NAV"). 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.

Upon transition to IFRS9, the Fund's financial assets and financial liabilities previously classified as FVTPL under IAS 39, Financial Instruments – Recognition and Measurement ("IAS 39") continue to be classified in the same category and there were no changes in the measurement attributes. The adoption of IFRS 9 has also been applied retrospectively and did not result in any changes in the prior period.

(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 the Statements of Comprehensive Income – Foreign exchange gain (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 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).

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.

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Notes to Financial Statements

December 31, 2018 and 2017

(d) Impairment of financial assets

IFRS 9 requires that an entity 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 comprises deposits with financial institutions.

(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.

(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 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.

(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 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.

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- 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 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 period 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 Fund, the Manager is required to make significant judgments in determining the most appropriate classification in accordance with IFRS 9. The Manager has assessed the Fund's business models, the manner in which all financial assets and financial liabilities are managed and performance evaluates as a group on a fair value basis, and concluded that FVTPL in accordance with IFRS 9 provides the most appropriate classification of the Fund's financial instruments.

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:

	December 31 2018		
	Series A	Series F	Series F1
Outstanding at the beginning of the year	351,453	976,349	972,330
Redeemable shares issued	56,201	-	443,988
Redeemable shares reinvested	21,623	74,455	78,638
Redeemable shares redeemed	(49,312)	(49,114)	(147,582)
Outstanding at the end of the year	379,965	1,001,690	1,347,374

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Notes to Financial Statements

December 31, 2018 and 2017

	December 31 2017		
	Series A	Series F	Series F1
Outstanding at the beginning of the year	228,310	923,159	417,085
Redeemable shares issued	170,867	-	581,220
Redeemable shares reinvested	18,197	82,221	48,825
Redeemable shares redeemed	(65,921)	(29,031)	(74,800)
Outstanding at the end of the year	351,453	976,349	972,330

5. RELATED PARTY TRANSACTIONS

As of December 31, 2018, the Manager of the Fund and certain Directors and Officers of the Manager held a total of 383,210 (2017 - 368,380) Series F shares and 15,265 (2017 - 68,515) Series F1 shares of the Fund.

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.

The Fund will pay a performance fee to LDIC Inc., 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 "Corporation") 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.

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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 has accumulated capital loss carry-forwards as of December 31, 2018 of nil (2017 –nil). The fund has accumulated non-capital loss carry-forwards as of December 31, 2018 of nil (2017-nil).

7. TRANSACTION COSTS

Commissions and other transaction fees paid for portfolio transactions for the year ended December 31, 2018 were \$360,179 (2017 - \$301,214).

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, 2018 and 2017 was \$22,113 and \$20,639, 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.

(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, 2018 and December 31, 2017, the Fund had directly invested in debt instruments with the following Standard & Poor's credit ratings:

Portfolio by rating category	As a % of Net Assets	
	December 31, 2018	December 31, 2017
A	-	0.6%
NR	1.8%	-
	<u>1.8%</u>	<u>0.6%</u>

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(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, 2018 and December 31, 2017, the Fund's direct exposure to debt instruments by maturity was as follows:

		Less than 1 year (\$)	1 - 5 years (\$)	More than 5 years (\$)	Total (\$)
Interest rate exposure	December 31, 2018	-	546,321	-	546,321
	December 31, 2017	-	-	178,440	178,440

As at December 31, 2018, should interest rates have decreased or increased by 0.25% with all other variables remaining constant, the increase or decrease in Net Assets for the year would amount to approximately \$1,781 (December 31, 2017 - \$2,960). In practice, the actual trading results may differ, and the difference could be material.

(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, 2018		December 31, 2017	
	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)
U.S. dollar	<u>1,701,523</u>	<u>5.5</u>	<u>1,075,189</u>	<u>3.4</u>

As at December 31, 2018, 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 \$85,076 (December 31, 2017 - \$53,759). In practice, the actual results may differ and the difference could be material.

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(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, 2018, approximately 80.1% (December 31, 2017 - 84.96%) 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, 2018, the Net Assets of the Fund would have increased or decreased by approximately \$1,249,253, or 4.0% (December 31, 2017 - \$1,325,807, or 4.2%) 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.

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

Investment Sector	December 31, 2018	December 31, 2017
Corporate Bonds	1.8%	0.6%
Consumer Discretionary	13.0%	11.9%
Consumer Staples - Long	6.6%	10.5%
Energy	4.6%	7.4%
Communication Services	2.8%	-
Financials	2.1%	6.3%
Health Care	8.2%	5.6%
Industrials	21.5%	8.7%
Information Technology	13.7%	13.2%
Materials	5.2%	15.9%
Real Estate	6.0%	3.9%
Utilities	-	3.3%
Industrials - Short	(0.7%)	-
Financials - Short	(0.7%)	-
Consumer Staples - Short	(2.2%)	(1.8%)
Net Other Assets/Liabilities	18.1%	14.5%
10. F Total	100.0%	100.0%

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, 2018 and December 31, 2017:

	Financial Assets (Liabilities) at Fair Value as at December 31, 2018			
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Equities - Long	26,096,262	-	-	26,096,262
Warrants	13,200	-	-	13,200
Bonds	-	-	546,321	546,321
Equities - Short	(1,124,400)	-	-	(1,124,400)
	24,985,062	-	546,321	25,531,383

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	Financial Assets (Liabilities) at Fair Value as at December 31, 2017			Total (\$)
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	
Equities - Long	26,284,128	-	720,270	27,004,398
Warrants	18,960	43,300	-	62,260
Bonds	-	178,440	-	178,440
Equities - Short	(550,528)	-	-	(550,528)
	<u>25,752,560</u>	<u>221,740</u>	<u>720,270</u>	<u>26,694,570</u>

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, 2017	\$ -	\$ 720,270
Purchases	534,202	-
Sales	-	(720,379)
Net transfers in (out)	-	-
Realized gains (losses)	-	109
Change in unrealized appreciation (depreciation) on investments	12,119	-
Balance as at December 31, 2018	\$ 546,321	-
Net change in unrealized appreciation from investments as at Dec 31, 2018	\$ 12,119	\$ -

	Equities
Balance as at December 31, 2016	\$ -
Purchases	1,565,789
Sales	-
Net transfers in (out)	(845,519)
Realized gains (losses)	-
Change in unrealized appreciation on investments	-
Balance as at December 31, 2017	\$ 720,270
Net change in unrealized appreciation from investments as at December 31, 2017	\$ -

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, 2018 and December 31, 2017, the fair values of Level 3 securities held by the Fund comprised of the following securities and the unobservable inputs used in the fair value measurement of these investments were as follows:

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December 31, 2018

Investment Name	Fair Value (\$)	Valuation Technique	Unobservable inputs
Central Coast Agriculture LLC	546,321	Recent Transactions	N/A
Total	546,321		

December 31, 2017

Investment Name	Fair Value (\$)	Valuation Technique	Unobservable inputs
Canopy Rivers	249,000	Recent Transactions	N/A
Hut 8 Mining Corp.	93,750	Recent Transactions	N/A
Nubeva Inc.	377,520	Recent Transactions	N/A
Total	720,270		

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

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.