



LDIC North American Small Business Fund (Corporate Class)

Financial Statements

December 31, 2019

Independent auditor's report

To the Unitholders of
LDIC North American Small Business Fund [the "Fund"]

Opinion

We have audited the financial statements of the Fund, which comprise the statements of financial position as at December 31, 2019 and 2018, 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, 2019 and 2018, 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.

Toronto, Canada
March 11, 2020

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,

	2019	2018
Assets		
Current assets		
Financial assets at fair value through profit or loss (note 3)	\$ 16,679,192	\$ 26,655,783
Cash	8,573	6,335,519
Accrued dividends	12,270	50,136
Accrued interest	2,075	-
Receivables for investments sold	-	13,968
Subscriptions receivable	-	4,500
Total assets	16,702,110	33,059,906
Liabilities		
Current liabilities		
Financial liabilities at fair value through profit or loss (note 3)	-	1,124,400
Performance fees	-	583,401
Accrued expenses	131,410	105,746
Dividends payable	-	2,440
Payable for investments purchased	-	19,739
Management fees payable	18,405	39,504
Total liabilities (excluding Net Assets attributable to holders of redeemable shares)	149,815	1,875,230
Net Assets attributable to holders of redeemable shares (note 4)	\$ 16,552,295	\$ 31,184,676
Net Assets attributable to holders of redeemable shares per series		
Series A	\$ 915,989	\$ 4,245,997
Series F	\$ 10,918,427	\$ 11,539,264
Series F1	\$ 4,717,879	\$ 15,399,415
Net Assets attributable to holders of redeemable shares per series per share (note 4)		
Series A	\$ 11.43	\$ 11.17
Series F	\$ 11.93	\$ 11.52
Series F1	\$ 11.79	\$ 11.43

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,

	2019	2018
Net gain (loss) on financial instruments		
Dividend income	\$ 244,780	\$ 411,282
Interest for distribution purposes	61,435	55,399
Dividends paid on investments sold short	(6,400)	(20,603)
Foreign exchange gain (loss)	(9,698)	(1,860)
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	577,743	2,727,845
Change in unrealized appreciation (depreciation) in value of investments	2,775,574	(4,687,136)
Change in unrealized appreciation (depreciation) in value of foreign exchange from currency	(1,351)	1,371
Net gain (loss) on financial instruments	3,642,083	(1,513,702)
Expenses (note 5)		
Management fees	326,968	538,041
Transaction costs (note 7)	166,752	360,179
Other expenses	69,956	96,355
Valuation fees	32,937	35,700
Audit fees	21,731	22,071
Legal fees	21,037	11,157
Filing fees	20,680	20,964
Securityholder reporting costs	17,924	19,280
Performance fees	-	595,608
Custodian fees	8,151	8,368
Independent review committee fees	3,261	3,348
Total operating expenses	689,397	1,711,071
Operating profit (loss)	2,952,686	(3,224,773)
Withholding taxes (note 6)	(794)	(132)
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)	\$ 2,951,892	\$ (3,224,905)
Increase (decrease) in Net Assets attributable to holders of redeemable shares per series from operations (excluding distributions)		
Series A	\$ 368,367	\$ (484,238)
Series F	\$ 860,513	\$ (1,124,917)
Series F1	\$ 1,723,012	\$ (1,615,750)
Average number of shares outstanding for the period per series		
Series A	189,055	386,361
Series F	953,025	1,002,802
Series F1	718,784	1,304,015
Increase (decrease) in Net Assets attributable to holders of redeemable shares per share from operations (excluding distributions)		
Series A	\$ 1.95	\$ (1.25)
Series F	\$ 0.90	\$ (1.12)
Series F1	\$ 2.40	\$ (1.24)

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,

	2019		2018	
	Series A		Series F	
Net Assets attributable to holders of redeemable shares at beginning of year	\$	4,245,997	\$	4,689,792
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)		368,367		(484,238)
Redeemable share transactions				
Proceeds from redeemable shares issued		378,687		708,930
Redemption of redeemable shares		(4,062,620)		(599,579)
Reinvestments of distributions to holders of redeemable shares		81,200		266,458
		(3,602,733)		375,809
Distributions to holders of redeemable shares				
From net investment income		(15,185)		(52,549)
From net realized capital gains		(80,457)		(282,817)
		(95,642)		(335,366)
Net increase (decrease) in Net Assets attributable to holders of redeemable shares		(3,330,008)		(443,795)
Net Assets attributable to holders of redeemable shares at end of year	\$	915,989	\$	4,245,997

	2019		2018	
	Series F1		Total	
Net Assets attributable to holders of redeemable shares at beginning of year	\$	15,399,415	\$	13,221,139
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)		1,723,012		(1,615,750)
Redeemable share transactions				
Proceeds from redeemable shares issued		1,848,520		5,687,276
Redemption of redeemable shares		(14,248,364)		(1,875,191)
Reinvestments of distributions to holders of redeemable shares		366,900		984,918
		(12,032,944)		4,797,003
Distributions to holders of redeemable shares				
From net investment income		(78,219)		(190,203)
From net realized capital gains		(293,385)		(812,774)
		(371,604)		(1,002,977)
Net increase (decrease) in Net Assets attributable to holders of redeemable shares		(10,681,536)		2,178,276
Net Assets attributable to holders of redeemable shares at end of year	\$	4,717,879	\$	15,399,415

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,

	2019	2018
Cash flows from (used in) operating activities		
Increase (decrease) in Net Assets attributable to holders of redeemable shares from operations (excluding distributions)	\$ 2,951,892	\$ (3,224,905)
Adjustments for:		
Foreign exchange (gain) loss	9,698	1,860
Net realized (gain) loss on sale of investments	(577,743)	(2,727,845)
Change in unrealized (appreciation) depreciation in value of investments	(2,775,574)	4,687,136
Purchases of investments	(22,240,660)	(52,785,884)
Proceeds from sale of investments	34,440,397	51,995,551
Accrued dividends	37,866	(4,532)
Accrued interest	(2,075)	7,470
Other receivable	-	60,466
Performance fees	(583,401)	89,452
Accrued expenses	25,664	7,287
Dividends payable	(2,440)	(1,496)
Management fees payable	(21,099)	5,685
Net cash from (used in) operating activities	11,262,525	(1,889,755)
Cash flows from (used in) financing activities		
Distributions paid to holders of redeemable shares, net of reinvested distributions	(20,085)	(91,258)
Proceeds from redeemable shares issued	1,483,770	6,389,791
Redemption of redeemable shares	(19,043,458)	(3,103,577)
Net cash from (used in) financing activities	(17,579,773)	3,194,956
Foreign exchange gain (loss)	(9,698)	(1,860)
Net increase (decrease) in cash	(6,317,248)	1,305,201
Cash at beginning of year	6,335,519	5,032,178
Cash at end of year	\$ 8,573	\$ 6,335,519
Supplemental Cash Flow Information:		
Dividends received, net of withholding taxes	\$ 281,852	\$ 406,618
Dividends paid on investments sold short	(8,840)	(22,099)
Interest received	59,360	62,869

LDIC North American Small Business Fund (Corporate Class)

Schedule of Investment Portfolio

As at December 31, 2019

Number of Shares or Par Value		Coupon Rate/ Yield (%)	Maturity Date	Average Cost \$	Fair Value \$	Percentage of Net Assets %
Bonds						
Foreign Corporate Bonds						
400,000	Central Coast Agriculture LLC	8.000%	13-Dec-20	534,202	518,699	
				<u>534,202</u>	<u>518,699</u>	3.13
Total Bonds				<u>534,202</u>	<u>518,699</u>	3.13
Canadian Equities						
Communication Services						
524,685	Thunderbird Entertainment Group Inc.			645,317	760,793	
				<u>645,317</u>	<u>760,793</u>	4.60
Consumer Discretionary						
28,800	AutoCanada Inc.			385,923	356,832	
49,100	Park Lawn Corp.			1,184,590	1,438,139	
17,035	Pollard Banknote Ltd.			274,823	340,700	
				<u>1,845,336</u>	<u>2,135,671</u>	12.90
Energy						
100,000	Macro Enterprises Inc.			374,000	375,000	
				<u>374,000</u>	<u>375,000</u>	2.27
Health Care						
200,000	Akumin Inc.			938,097	959,593	
178,000	Hemptown Organics Corp.			400,500	400,500	
15,000	Profound Medical Corp., Warrants		20-Mar-23	-	50,250	
23,100	Zymeworks Inc.			784,408	1,361,747	
				<u>2,123,005</u>	<u>2,772,090</u>	16.75
Industrial						
6,400	Cargojet Inc.			488,875	661,312	
85,600	Chorus Aviation Inc.			651,313	692,504	
22,200	GDI Integrated Facility Services Inc.			688,795	751,026	
22,250	K-Bro Linen Inc.			848,571	935,613	
200,000	OjO Electric Corp.			152,000	100,000	
100,000	People Corp.			910,000	1,003,000	
370,000	Xebec Adsorption Inc.			821,760	795,500	
				<u>4,561,314</u>	<u>4,938,955</u>	29.84
Information Technology						
6,900	Descartes Systems Group Inc.			387,304	382,950	
9,840	Kinaxis Inc.			909,334	984,197	
61,600	Sylogist Ltd.			583,570	606,760	
				<u>1,880,208</u>	<u>1,973,907</u>	11.93
Real Estate						
25,000	Dream Industrial Real Estate Investment Trust			338,784	328,500	
421,500	StorageVault Canada Inc.			1,010,001	1,563,765	
				<u>1,348,785</u>	<u>1,892,265</u>	11.43
Total Canadian Equities				<u>12,777,965</u>	<u>14,848,681</u>	89.72
Foreign Equities						

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

LDIC North American Small Business Fund (Corporate Class)

Schedule of Investment Portfolio

As at December 31, 2019

Information Technology				
9,050	Tucows Inc.	<u>746,639</u>	<u>740,562</u>	
		746,639	740,562	4.47
Utilities				
33,500	Global Water Resources Inc.	<u>543,722</u>	<u>571,250</u>	
		543,722	571,250	3.45
Total Foreign Equities		<u>1,290,361</u>	<u>1,311,812</u>	<u>7.92</u>
Transaction costs		(33,791)		
Total Equities		<u>14,068,326</u>	<u>16,160,493</u>	<u>97.64</u>
Total Investments		<u>14,568,737</u>	<u>16,679,192</u>	<u>100.77</u>
Other Assets Less Liabilities			<u>(126,897)</u>	-0.77
Net Assets Attributable to Holders of Redeemable Units			<u>16,552,295</u>	<u>100.00</u>

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

LDIC North American Small Business Fund (Corporate Class)

Notes to Financial Statements

December 31, 2019 and 2018

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 27, 2020.

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 27, 2020, 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.

LDIC North American Small Business Fund (Corporate Class)

Notes to Financial Statements

December 31, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) IFRS – 9 Financial Instruments Transition

The Fund applied IFRS 9, Financial Instruments (“IFRS 9”). The 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 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.

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.

(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.

LDIC North American Small Business Fund (Corporate Class)

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(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.

LDIC North American Small Business Fund (Corporate Class)

Notes to Financial Statements

December 31, 2019 and 2018

- 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:

	Series A	Series F	Series F1
Outstanding at the beginning of the year	379,965	1,001,690	1,347,374
Redeemable shares issued	31,594	-	153,954
Redeemable shares reinvested	7,067	33,579	31,157
Redeemable shares redeemed	(338,475)	(119,844)	(1,132,256)
Outstanding at the end of the year	80,151	915,425	400,229

	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

LDIC North American Small Business Fund (Corporate Class)

Notes to Financial Statements

December 31, 2019 and 2018

5. RELATED PARTY TRANSACTIONS

As of December 31, 2019, the Manager of the Fund and certain Directors and Officers of the Manager held a total of 356,376 (2018 – 383,210) Series F shares and nil (2018 – 15,265) 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.

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

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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, 2019 of nil (2018 –nil). The fund has accumulated non-capital loss carry-forwards as of December 31, 2019 of 1,013,504 (2018-nil). The non-capital losses expires on 2029.

7. TRANSACTION COSTS

Commissions and other transaction fees paid for portfolio transactions for the year ended December 31, 2019 were \$166,752 (2018 - \$360,179).

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, 2019 and 2018 was \$35,242 and \$22,113, 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, 2019 and December 31, 2018, 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, 2019	December 31, 2018
Not Rated	3.1%	1.8%
	3.1%	0.0%

(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.

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(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, 2019 and December 31, 2018, 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, 2019	-	519,000	-	519,000
	December 31, 2018	-	546,321	-	546,321

As at December 31, 2019, 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 \$931 (December 31, 2018 - \$1,781). 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, 2019		December 31, 2018	
	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)
U.S. dollar	3,414,365	20.6	1,701,523	5.5

As at December 31, 2019, 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 \$170,718 (December 31, 2018 - \$85,076). 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, 2019, approximately 97.6% (December 31, 2018 – 80.1%) 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, 2019, the Net Assets of the Fund would have increased or decreased by approximately \$808,025 or 4.9% (December 31, 2018 - \$1,249,253 or 4.0%) with all other factors remaining constant. In practice, the actual results may differ and the difference could be material.

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(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, 2019	December 31, 2018
Corporate Bonds	3.1%	1.8%
Consumer Discretionary	12.9%	13.0%
Consumer Staples - Long	-	6.6%
Energy	2.3%	4.6%
Communication Services	4.6%	2.8%
Financials	-	2.1%
Health Care	16.8%	8.2%
Industrials	29.8%	21.5%
Information Technology	16.4%	13.7%
Materials	-	5.2%
Real Estate	11.4%	6.0%
Utilities	3.5%	-
Industrials - Short	-	(0.7%)
Financials - Short	-	(0.7%)
Consumer Staples - Short	-	(2.2%)
Net Other Assets/Liabilities	-0.8%	18.1%
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, 2019 and December 31, 2018:

Financial Assets (Liabilities) at Fair Value as at December 31, 2019				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Equities - Long	15,709,743	-	400,500	16,110,243
Warrants	-	50,250	-	50,250
Bonds	-	-	518,699	518,699
	15,709,743	50,250	919,199	16,679,192
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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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, 2018	\$ 546,321	\$ -
Purchases	-	-
Sales	-	-
Net transfers in (out)	-	400,500
Realized gains (losses)	-	-
Change in unrealized appreciation (depreciation) on investments	(27,622)	-
Balance as at December 31, 2019	\$ 518,699	400,500
Net change in unrealized appreciation from investments as at Dec 31, 2019	\$ (27,622)	\$ -

	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	\$ -

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, 2019 and December 31, 2018, 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:

December 31, 2019

Investment Name	Fair Value (\$)	Valuation Technique	Unobservable inputs
Central Coast Agriculture LLC	518,699	Discounted Cash Flow	N/A
Hemptown Organics Corp.	400,500	Recent Transactions	N/A
Total	919,199		

December 31, 2018

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

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

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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.