

Financial Statements of

# **HEWARD INCOME FUND**

For the six-month period ended June 30, 2020 (Unaudited)

# HEWARD INCOME FUND

## Table of Contents

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	<b>Page</b>
Statements of Financial Position	1
Statements of Comprehensive Income	2
Statements of Changes in Net Assets Attributable to Holders of Redeemable Units	3
Statements of Cash Flows	4
Schedule of Investment Portfolio	5 - 6
Notes to Financial Statements	7 - 22

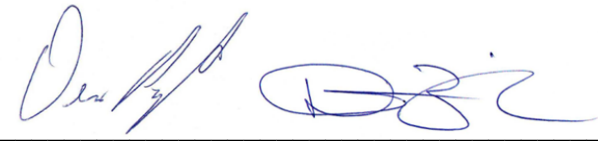
## **MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying unaudited interim financial statements have been prepared by Majestic Asset Management LLC, in its capacity as the Manager of the Fund. The Fund's Manager is responsible for the information and representations contained in these financial statements.

The Manager is responsible for managing the business and affairs of the Fund. Heward Investment Management Inc. is the investment advisor of the Fund (the "Investment Advisor") and is responsible for the management of the Fund's investment portfolios. The Investment Advisor retains ownership of the Fund at all times.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements made by the Manager. The significant accounting policies which the Manager believes are appropriate for the Fund are described in Note 3 to the unaudited interim financial statements.

**On behalf of the Manager**



**August 24, 2020**

## **NOTICE TO UNITHOLDERS**

**The Auditors of the Fund have not reviewed these financial statements.**

Majestic Asset Management LLC, the Manager of the Fund, appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice.

# Heward Income Fund

## Statements of Financial Position As at June 30, 2020 (Unaudited)

	June 30, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,547,207	\$ 3,880,476
Investments	63,065,836	62,742,780
Interest and dividends receivable	449,815	347,821
Subscriptions receivable	63,500	10,750
Prepaid expenses	3,832	6,699
	<u>68,130,190</u>	<u>66,988,526</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accrued liabilities	19,706	32,116
Management and advisory fees payable (note 6)	5,716	6,120
Distributions payable	444,784	475,852
Redemptions payable	65,958	1,500
	<u>536,164</u>	<u>515,588</u>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<u>\$ 67,594,026</u>	<u>\$ 66,472,938</u>
<b>Net Assets Attributable to Holders of Redeemable Units per Series</b>		
Series A	\$ 14	\$ 14
Series F	332,897	255,220
Series O	67,261,115	66,217,704
	<u>\$ 67,594,026</u>	<u>\$ 66,472,938</u>
<b>Number of Redeemable Units Outstanding (note 5)</b>		
Series A	1	1
Series F	30,531	23,440
Series O	5,321,544	5,247,851
<b>Net Assets Attributable to Holders of Redeemable Units per Unit (note 10)</b>		
Series A	\$ 14.00	\$ 14.00
Series F	10.90	10.89
Series O	12.64	12.62

Approved on behalf of the Manager



Majestic Asset Management LLC ("Manager")



Majestic Asset Management LLC ("Manager")

# Heward Income Fund

## Statements of Comprehensive Income

For the six-months ended June 30, 2020 (Unaudited)

	2020	2019
<b>Income</b>		
Interest available for distribution	\$ 756,504	\$ 725,567
Dividends	204,760	199,012
Net realized gain on sale of investments	287,671	140,598
Net change in unrealized (depreciation) appreciation in value of investments	(177,619)	1,589,757
Net realized gain (loss) on foreign exchange	1	(1)
	<u>1,071,317</u>	<u>2,654,933</u>
<b>Expenses</b>		
Management and advisory fees (note 6)	39,845	38,170
Accounting and recordkeeping fees	26,037	32,894
Custodian fee	12,404	10,818
Audit	8,309	2,863
Interest, bank charges and other	4,851	5,806
Fund transaction processing fees	797	1,191
	<u>92,243</u>	<u>91,742</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units</b>	<u>\$ 979,074</u>	<u>\$ 2,563,191</u>
<b>Increase in Net Assets Attributable to Holders of Redeemable Units per Series</b>		
Series A	\$ —	\$ 1
Series F	2,791	12,206
Series O	<u>976,283</u>	<u>2,550,984</u>
	<u>\$ 979,074</u>	<u>\$ 2,563,191</u>
<b>Weighted Average of Redeemable Units Outstanding During the Period</b>		
Series A	1	1
Series F	29,717	30,495
Series O	5,297,608	5,112,553
<b>Increase in Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Series A	\$ —	\$ 0.47
Series F	0.09	0.40
Series O	0.18	0.50

# Heward Income Fund

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Units For the six-months ended June 30, 2020 (Unaudited)

	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued and switch-in <sup>(1)</sup>	Redemption of redeemable units and switch-out <sup>(1)</sup>	Increase in net assets attributable to holders of redeemable units	Distribution to unitholders of redeemable units	Reinvestments of distributions to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period
<b>June 30, 2020</b>							
Series A	\$ 14	\$ -	\$ -	\$ -	\$ -	\$ -	14
Series F	255,220	84,965	(7,499)	2,791	(2,580)	-	332,897
Series O	66,217,704	1,620,600	(689,345)	976,283	(864,222)	95	67,261,115
	<u>\$ 66,472,938</u>	<u>\$ 1,705,565</u>	<u>\$ (696,844)</u>	<u>\$ 979,074</u>	<u>\$ (866,802)</u>	<u>\$ 95</u>	<u>\$ 67,594,026</u>

<sup>(1)</sup> Total proceeds from redeemable units relating to switch-in and redemptions of redeemable units relating to switch-out for the period ended June 30, 2020 were \$74,965 and \$(74,965), respectively.

	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued and switch-in <sup>(1)</sup>	Redemption of redeemable units and switch-out <sup>(1)</sup>	Increase in net assets attributable to holders of redeemable units	Distribution to unitholders of redeemable units	Reinvestments of distributions to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period
<b>June 30, 2019</b>							
Class A	\$ 13	\$ -	\$ -	\$ 1	\$ -	\$ -	14
Class F	395,145	80,619	(230,876)	12,206	(2,382)	-	254,712
Class O	62,384,537	3,594,038	(3,504,006)	2,550,984	(805,863)	963	64,220,653
	<u>\$ 62,779,695</u>	<u>\$ 3,674,657</u>	<u>\$ (3,734,882)</u>	<u>\$ 2,563,191</u>	<u>\$ (808,245)</u>	<u>\$ 963</u>	<u>\$ 64,475,379</u>

<sup>(1)</sup> Total proceeds from redeemable units relating to switch-in and redemptions of redeemable units relating to switch-out for the period ended June 30, 2019 were \$80,620 and \$(80,620), respectively.

# Heward Income Fund

## Statements of Cash Flows

For the six-months ended June 30, 2020 (Unaudited)

	2020	2019
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Increase in Net Assets Attributable to Holders of Redeemable Units	\$ 979,074	\$ 2,563,191
Adjustments for non-cash items		
Net realized gain on sale of investments	(287,671)	(140,598)
Net change in unrealized depreciation (appreciation) in value of investments	177,619	(1,589,757)
Net realized (gain) loss on foreign exchange	(1)	1
Change in non-cash balances		
Increase in interest and dividends receivable	(101,994)	(30,114)
Decrease in prepaid expenses	2,867	2,851
Decrease in accrued liabilities	(12,410)	(9,254)
(Decrease) increase in management and advisory fees payable	(404)	547
Proceeds from sale of investments	12,932,516	12,106,718
Purchase of investments	(13,145,520)	(14,859,451)
Cash provided by (used in) operating activities	<u>544,076</u>	<u>(1,955,866)</u>
<b>Financing Activities</b>		
Proceeds from redeemable units issued	1,577,850	3,809,037
Redemption of redeemable units	(557,421)	(3,739,352)
Distribution paid to holders of redeemable units, net of reinvested distributions	<u>(897,775)</u>	<u>(841,475)</u>
Cash provided by (used in) financing activities	<u>122,654</u>	<u>(771,790)</u>
Increase (decrease) in cash and cash equivalents during the period	666,730	(2,727,656)
Foreign exchange gain (loss) on cash	1	(1)
Cash and cash equivalents, beginning of period	<u>3,880,476</u>	<u>6,063,600</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 4,547,207</u>	<u>\$ 3,335,943</u>
<b>Supplemental information*</b>		
Interest paid	\$ 24	\$ —
Interest received	750,193	670,742
Dividends received, net of withholding taxes	197,065	223,723

\*Included as a part of cash flows from operating activities

# Heward Income Fund

## Schedule of Investment Portfolio As at June 30, 2020 (Unaudited)

Number of shares/units	Investments owned	Local currency	Average cost	Fair value	% of net asset value
<b>EQUITIES</b>					
<b>Canada</b>					
18,000	Algonquin Power & Utilities Corp.	CAD	\$ 341,209	\$ 315,900	0.47
4,500	BCE Inc.	CAD	248,235	254,790	0.38
11,700	Boardwalk Real Estate Investment Trust	CAD	386,442	347,607	0.51
5,000	Canadian Apartment Properties REIT	CAD	232,882	242,950	0.36
35,000	Chartwell Retirement Residences	CAD	418,562	327,950	0.49
5,600	Emera Inc.	CAD	300,659	299,152	0.44
1,900	Intact Financial Corp.	CAD	252,628	245,499	0.36
13,650	Power Corp of Canada	CAD	316,558	325,962	0.48
25,000	Sienna Senior Living Inc.	CAD	382,285	231,250	0.34
4,000	TC Energy Corp.	CAD	253,923	232,000	0.34
10,500	TELUS Corp.	CAD	242,462	239,085	0.35
4,500	The Bank of Nova Scotia	CAD	278,824	252,810	0.37
10,000	The North West Co Inc.	CAD	287,602	296,800	0.44
3,500	The Toronto-Dominion Bank	CAD	237,671	212,065	0.31
22,000	Timbercreek Financial Corp.	CAD	170,436	188,980	0.28
<b>TOTAL EQUITIES</b>			<b>4,350,378</b>	<b>4,012,800</b>	<b>5.92</b>
<b>FIXED INCOME</b>					
<b>PREFERRED SHARES</b>					
<b>Canada</b>					
25,000	Algonquin Power & Utilities Corp. Preferred Shares 5%	CAD	459,002	426,875	0.63
19,700	BCE Inc. Preferred Shares 4.25%	CAD	345,011	322,095	0.48
13,000	Enbridge Inc. PFD SER 17	CAD	309,289	296,660	0.44
30,000	Enbridge Inc. Preferred Shares PFD SER 3	CAD	431,804	350,700	0.52
30,000	Enbridge Inc. Preferred Shares PFD SER R	CAD	435,146	363,300	0.54
25,000	Partners Value Split Corp. PFD SER 9	CAD	625,000	623,500	0.92
40,000	Pembina Pipeline Corp. Preferred Shares 5.75%	CAD	1,034,997	947,600	1.40
30,000	Royal Bank of Canada PFD	CAD	753,000	758,400	1.12
13,200	Royal Bank of Canada PFD SER AF	CAD	323,408	333,432	0.49
4,200	TC Energy Corp. Preferred Shares 3.903%	CAD	54,640	54,054	0.08
			<b>4,771,297</b>	<b>4,476,616</b>	<b>6.62</b>
<b>BONDS</b>					
<b>Canada</b>					
1,200,000	Aecon Group Inc. Due 31-Dec-23	CAD	\$ 1,184,193	\$ 1,186,199	1.75
582,000	Ag Growth International Inc. 5.25% 31-Dec-24	CAD	574,275	541,260	0.80
1,200,000	Bell Canada Inc. Due 03-Oct-22	CAD	1,214,400	1,246,668	1.84
1,750,000	Bell Canada Inc. Due 27-Feb-24	CAD	1,746,122	1,825,723	2.70
500,000	Brookfield Property Finance ULC 4.30% 01-Mar-24	CAD	499,726	505,040	0.75
1,000,000	Canaccord Genuity Group Inc. 6.25% 31-Dec-23	CAD	1,000,000	1,010,000	1.49
4,500,000	Canadian Government Bond 0.75% 01-Mar-21	CAD	4,461,150	4,516,380	6.68
2,500,000	Canadian Government Bond Due 01-Jun-28	CAD	2,382,125	2,802,600	4.15
6,500,000	Canadian Government Bond Due 01-Sep-20	CAD	6,368,870	6,505,915	9.62
1,400,000	Canadian Natural Resources Ltd. Due 14-Aug-20	CAD	1,423,064	1,402,744	2.08



# Heward Income Fund

## Schedule of Investment Portfolio (continued)

As at June 30, 2020 (Unaudited)

Number of shares/units	Investments owned	Local currency	Average cost	Fair value	% of net asset value
<b>BONDS (continued)</b>					
<b>Canada (continued)</b>					
700,000	Cargojet Inc. 5.75% 30-Apr-25	CAD	700,000	703,850	1.04
1,200,000	Central 1 Credit Union Due 05-Feb-21	CAD	1,201,380	1,191,852	1.76
1,500,000	Daimler Canada Finance Inc. 1.91% 08-Jul-21	CAD	1,497,450	1,502,355	2.22
1,000,000	Dollarama Inc. 0.9325% 01-Feb-21	CAD	1,001,120	998,410	1.48
850,000	Fiera Capital Corp. Due 30-Jun-23	CAD	857,450	858,500	1.27
1,500,000	Finning International Inc. Due 29-Sep-21	CAD	1,504,025	1,531,095	2.27
1,000,000	Ford Credit Canada Ltd. 2.58% 10-May-21	CAD	1,001,200	978,920	1.45
1,000,000	Gibson Energy Inc. 5.25% 15-Jul-24	CAD	1,003,775	1,039,380	1.54
2,000,000	HSBC Bank Canada Due 07-Jul-20	CAD	2,006,702	2,000,360	2.96
500,000	Innergex Renewable Energy Inc. 4.65% 31-Oct-26	CAD	500,000	516,480	0.76
1,250,000	John Deere Financial Inc. 2.46% 04-Apr-24	CAD	1,251,250	1,305,163	1.93
1,300,000	Loblaw Cos Ltd. 3.918% Due 10-Jun-24	CAD	1,305,655	1,423,864	2.11
1,600,000	Morguard Corp. Due 18-Nov-20	CAD	1,631,820	1,599,904	2.37
1,000,000	NorthWest Healthcare Properties Real Estate Investment Trust Due 31-Dec-21	CAD	1,011,423	963,000	1.42
1,250,000	Parkland Fuel Corp. Due 09-May-25	CAD	1,257,507	1,267,975	1.88
1,500,000	Pembina Pipeline Corp. 2.56% 01-Jun-23	CAD	1,518,750	1,536,270	2.27
1,400,000	Pembina Pipeline Corp. Due 10-Nov-21	CAD	1,411,380	1,434,524	2.12
1,000,000	Premium Brands Holdings Corp. 4.65% 30-Apr-25	CAD	993,649	1,015,000	1.50
1,000,000	Province of Quebec Canada Due 01-Sep-23	CAD	1,076,575	1,076,380	1.59
2,000,000	Province of Quebec Canada Due 01-Sep-26	CAD	1,987,255	2,184,660	3.23
1,000,000	Royal Bank of Canada Due 20-Jan-26	CAD	1,023,557	1,012,130	1.50
1,700,000	Saputo Inc. Due 21-Nov-23	CAD	1,713,503	1,775,038	2.63
1,200,000	TELUS Corp. Due 01-Apr-24	CAD	1,244,510	1,280,184	1.89
2,300,000	The Toronto-Dominion Bank Due 30-Sep-25	CAD	2,351,835	2,311,477	3.42
			<u>51,905,696</u>	<u>53,049,300</u>	<u>78.47</u>
	<b>United States</b>				
1,500,000	Molson Coors International LP Due 15-Jul-23	CAD	1,494,590	1,527,120	2.26
	<b>TOTAL FIXED INCOME</b>		58,171,583	59,053,036	87.35
	<b>Total investments owned</b>		62,521,961	63,065,836	93.27
	<b>Other assets, net</b>			<u>4,528,190</u>	<u>6.73</u>
	<b>Net Assets Attributable to Holders of Redeemable Units</b>			<u>\$ 67,594,026</u>	<u>100.00</u>

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## 1. General Information:

The Heward Income Fund (the "Fund") is an open-ended investment trust created on November 1, 2016 under the Laws of the province of Québec pursuant to a trust agreement (the "Trust Agreement"). TSX Trust Company (the "Trustee") is the Trustee of the Fund and Majestic Asset Management LLC (the "Manager"), acts as the investment fund manager of the Fund. The Manager is registered with the Autorité des marchés financiers ("AMF") as an exempt market dealer, portfolio manager and investment fund manager. The Manager is also registered as a commodity trading manager, portfolio manager, exempt market dealer and investment fund manager with the Ontario Securities Commission ("OSC"). The Manager is responsible for managing the business and affairs of the Fund including the appointment and removal of the Trustee and other service providers. The Fund commenced operations on November 1, 2016.

Heward Investment Management Inc (the "Investment Advisor") acts as the Investment Advisor of the Fund and is responsible for the management of the Fund's investment portfolios. The Investment Advisor is registered as a portfolio manager in the provinces of Alberta, British Columbia, New Brunswick, Ontario, and Quebec. The Investment Advisor retains ownership of the Fund at all times. SGGG Fund Services Inc. (the "Administrator") acts as the administrator and registrar of the Fund. National Bank Independent Network acts as the custodian (the "Custodian") and prime broker (the "Prime Broker") of the Fund.

The address of the Fund's registered office is 5005 Lapinière Blvd., Suite 2010, Brossard (Québec) Canada, J4Z 0N5.

The Heward Income Fund will seek to generate investment income and long-term capital appreciation to provide an attractive total investment return. To achieve this goal, the Fund will invest in a diversified basket of debt securities, preferred shares, income trusts, real estate investment trusts, hybrid products and common shares.

## 2. Basis of presentation:

These interim financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and International Accounting Standard 34, Interim Financial Reporting (together "IFRS") as published by the International Accounting Standard Board ("IASB"). The Fund reports under this basis of accounting as required by Canadian Securities Legislation and Canadian Accounting Standards Board.

These interim financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss which are presented at fair value. The policies applied in these financial statements are based on IFRS issued and outstanding as of August 24, 2020, which is the date on which the financial statements were authorized for issue by the Manager.

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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### 3. Significant accounting policies:

(a) Translation of foreign currency:

The functional and presentation currency of the Fund is the Canadian dollar. The fair value of foreign investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at 4:00 pm Eastern Standard Time (the "closing rate") on each valuation day. Purchases and sales of foreign securities denominated in foreign currencies and the related income are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(c) Cash and cash equivalents:

Cash and cash equivalents is comprised of cash on deposit and deposit instruments with Canadian financial institutions that are readily convertible to cash.

(d) Valuation of redeemable units:

The value of redeemable units is determined as at the last business day in each week as well as the last day of every month and, in any event, December 31 of each year, or such other day as agreed from time to time by the Manager ("Valuation Day"). The value of redeemable units on a Valuation Day is obtained by dividing the net assets attributable to holders of a specific Series of redeemable units by the total number of units outstanding of the Series at the close of business on the Valuation Day.

Expenses directly attributable to a Series are charged to that Series while common Fund expenses are allocated to each Series in a reasonable manner as determined by the Manager. Other income and realized and unrealized gains and losses are allocated to each Series of the Fund based on that Series' pro rata share of total net assets of the Fund.

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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### 3. Significant accounting policies (continued):

(e) Investment transactions and revenue recognition:

Investment transactions are accounted for on the trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

The interest income 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.

Realized gain (loss) on sale of investments and unrealized appreciation (depreciation) in investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero-coupon bonds.

(f) Financial instruments:

(i) Classification and measurement:

Financial assets and financial liabilities are initially measured at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics.

*Financial assets*

Financial assets are classified into two categories:

- (i) Fair value through profit or loss ("FVTPL"); and
- (ii) Measured at amortized cost

*Financial assets at fair value through profit or loss*

The Fund classifies its investments at FVTPL based on the Fund's business model for managing those financial assets in accordance with the Fund's documented investment strategy. The portfolio of investments is managed and performance is evaluated on a fair value basis and the portfolio of investments is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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### 3. Significant accounting policies (continued):

(f) Financial instruments (continued):

(i) Classification and measurement (continued):

#### *Measured at amortized cost*

Interest and dividends receivable, prepaid expenses and subscriptions receivable are classified as subsequently measured at amortized cost and recorded at cost or amortized cost. A financial asset is classified as subsequently measured at amortized cost only if both of the following criteria are met:

- (i) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- (ii) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

#### *Financial liabilities*

Financial liabilities are classified into one of two categories:

- (i) Fair value through profit or loss; and
- (ii) Measured at amortized cost

The Fund has no fair value through profit or loss financial liabilities.

#### *Financial liabilities measured at amortized cost*

Financial liabilities are accounted for at amortized cost using the effective interest rate method. Distributions payable, management and advisory fees payable, accrued liabilities and redemptions payable are classified as financial liabilities measured at amortized cost.

The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount.

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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### 3. Significant accounting policies (continued):

(f) Financial instruments (continued):

(ii) Determination of fair value:

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded investments) is based on quoted market prices at the close of trading on the Valuation Day, being the last business day in each week, or such other day as agreed from time to time by the Manager. 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 circumstances. The Fund's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The Fund currently holds no financial assets or liabilities that are not traded in active markets.

(g) Impairment of financial assets:

At each reporting date, the Fund assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(h) Increase in net assets attributable to holders of redeemable units per unit, per series:

Increase in net assets attributable to holders of redeemable units per unit, per series is based upon the increase in net assets attributable to holders of redeemable units divided by the weighted average number of units outstanding during the period.

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 4. Critical accounting estimates and judgments:

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The most significant accounting judgments and estimates that the Funds have made in preparing the financial statements are related to valuation of investment. See Note 3 for more information on the fair value measurement of the Funds' financial statements.

## 5. Redeemable units:

The Fund is permitted to issue an unlimited number of units of Series A, F and O with no par value.

The number of units issued, redeemed and outstanding for the periods ended June 30, 2020 and 2019 is summarized as follows:

	Redeemable Units, beginning of period	Redeemable Units Issued	Redemption of Redeemable Units	Reinvestments of Units	Redeemable Units, end of period
<b>June 30, 2020</b>					
Series A	1	–	–	–	1
Series F	23,440	7,770	(679)	–	30,531
Series O	5,247,851	128,431	(54,746)	8	5,321,544
<b>June 30, 2019</b>					
Series A	1	–	–	–	1
Series F	37,281	7,425	(21,266)	–	23,440
Series O	5,091,799	287,651	(280,191)	79	5,099,338

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## 6. Related party transactions:

### *Management and advisory fees*

The Manager is responsible to manage, supervise and administer the day-to-day investment operations of the Fund consistent with the investment objectives, strategy and policies of the Fund. For its services, the Manager receives a management fee determined as follows:

Series A: The unitholder is charged an annual advisory fee equal to 2% of the net asset value of the Units held by the subscriber. The advisory fees are accrued weekly and are paid monthly at 1/12 of 2%. In addition, the Manager will charge the Fund an annual Management Fee of up to 0.10% of the net asset value of the Fund. The Management Fees are accrued weekly and are paid monthly at 1/12 of 0.10%.

Series F: The unitholder is charged an annual advisory fee of 1%. In addition, the Manager will charge the Fund an annual Management Fee of up to 0.10% of the net asset value of the Fund. The Management Fees are accrued weekly and are paid monthly at 1/12 of 0.10%.

Series O: The unitholder must enter into an agreement with the Manager which identifies the advisory fee negotiated with the subscriber and payable by the subscriber to the Manager. In addition, the Manager will charge the Fund an annual Management Fee of up to 0.10% of the net asset value of the Fund. The Management Fees are accrued weekly and are paid monthly at 1/12 of 0.10%.

### *Expenses*

The Fund is responsible for the payment of its expenses. The Fund may reimburse the Manager for incidental expenses incurred with respect to the operation of the Fund. The Trustee's fee for providing trustee services to the Fund is paid by the Fund and will be as agreed between the Trustee and the Manager.



# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 7. Financial instruments:

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<b>June 30, 2020</b>								
	<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>		<b>Total</b>	
<b>Assets</b>								
Bonds	\$	–	\$	54,576,420	\$	–	\$	54,576,420
Equities		4,012,800		–		–		4,012,800
Preferred shares		4,476,616		–		–		4,476,616
	\$	8,489,416	\$	54,576,420	\$	–	\$	63,065,836

<b>December 31, 2019</b>								
	<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>		<b>Total</b>	
<b>Assets</b>								
Bonds	\$	–	\$	51,932,138	\$	–	\$	51,932,138
Equities		7,218,292		–		–		7,218,292
Preferred shares		3,592,350		–		–		3,592,350
	\$	10,810,642	\$	51,932,138	\$	–	\$	62,742,780

There were no significant transfers between the Level 1 and 2 in either the current or corresponding period.

The carrying values of the Fund's remaining financial assets and liabilities approximate their fair values due to their short-terms to maturity.

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## 7. Financial instruments (continued):

### Risk management

The Fund is exposed to a variety of risks arising from financial instruments as a result of its activities. The Fund applies a risk management approach seeking to minimize potential adverse effects on the Fund's performance while maximizing returns in the context of tolerable risk levels. The Fund's main risks are described hereafter:

#### *Credit risk*

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund's credit risk arises principally from cash held with custodians and from investments in debt securities. The Fund limits its exposure to credit loss by lodging its cash with an approved, reputable custodian and by holding high quality investments. The Fund's manager performs ongoing credit evaluations based upon factors surrounding the credit risk of issuers, historical trends and other information.

The Fund invests in financial assets, which have an investment grade as rated primarily by DBRS and S&P Global Rating.

The table below summarizes the credit ratings of the fixed income investments including preferred shares, held by the Fund:

	June 30, 2020	December 31, 2019
Rating:		
AAA	23.4 %	27.2 %
AA	7.4	8.9
A	13.6	11.8
BBB	34.5	37.8
BB	3.8	2.3
Unrated	17.3	12.0
	100 %	100 %

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 7. Financial instruments (continued):

### Risk management (continued)

#### *Credit risk (continued)*

All transactions in listed securities are settled upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

#### *Liquidity risk*

The Fund is exposed daily to redemptions of units for cash. The units of the Fund are redeemed on demand at the current net asset value per unit at the option of the unitholder. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed of. In addition, the Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity. The Fund's liabilities are short-term in nature and investments are considered readily realizable and highly liquid, therefore the Fund's liquidity risk is considered minimal.

The table hereunder categorizes the Fund's liabilities based on their contractual maturities, based on undiscounted cash flows:

	June 30, 2020		
	Carrying Value	Within 3 Months	More than 3 Months
Accrued liabilities	\$ 19,706	\$ 19,706	\$ -
Management and advisory fees payable	5,716	5,716	-
Distributions payable	444,784	444,784	-
Redemptions payable	65,958	65,958	-
	<u>\$ 536,164</u>	<u>\$ 536,164</u>	<u>\$ -</u>

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 7. Financial instruments (continued):

### Risk management (continued)

#### Liquidity risk (continued)

		December 31, 2019	
	Carrying Value	Within 3 Months	More than 3 Months
Accrued liabilities	\$ 32,116	\$ 32,116	\$ -
Management and advisory fees payable	6,120	6,120	-
Distributions payable	475,852	475,852	-
Redemptions payable	1,500	1,500	-
	\$ 515,588	\$ 515,588	\$ -

Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity disclosed above will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

#### Market risk

The Fund's investments are exposed to market risk comprised of interest rate risk, foreign currency risk and other price risk, as explained hereafter:

#### Interest rate risk

The value of fixed income securities will generally rise if interest rates fall and fall if interest rates rise. Changes in interest rates may also affect the value of equity securities. Effective duration, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other embedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. The effective duration of a security or portfolio of securities indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The longer the duration, the more sensitive the security portfolio is to changes in interest rates. The Manager of the Fund manages the effective duration and level of investment in fixed income securities. The effective duration of the portfolio's interest bearing securities is 2.36 years at June 30, 2020 (December 31, 2019 - 2.97 years). Interest rate risk is reduced by the fact that the Fund's fixed rate investments consist of balances from a large number of issuers.

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 7. Financial instruments (continued):

### Risk management (continued)

#### *Interest rate risk (continued)*

The table below summarizes the Fund's exposure to interest rate risk categorized by the earlier of contractual re-pricing or maturity dates.

	June 30, 2020			
	Less than 1 year	1-5 years	Greater than 5 years	Total
Assets				
Financial assets:				
Bonds	\$ 19,194,485	\$ 26,554,588	\$ 8,827,347	\$ 54,576,420

	December 31, 2019			
	Less than 1 year	1-5 years	Greater than 5 years	Total
Assets				
Financial assets:				
Bonds	\$ 15,978,950	\$ 22,412,040	\$ 13,541,148	\$ 51,932,138

A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

As at June 30, 2020, should interest rates have increased or decreased by 25 basis points with all other variables remaining constant, the Fund's net assets attributable to holders of redeemable units would have been an approximate increase or decrease of 0.59% (December 31, 2019 - 0.74%).

In accordance with the Fund's policy, the Investment Manager monitors the Fund's overall interest sensitivity on a daily basis; the Board of Directors reviews it on a quarterly basis.

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## 7. Financial instruments (continued):

### Risk management (continued)

#### *Foreign currency risk*

The Fund may be exposed to foreign currency risk arising from holding investments and cash denominated in currencies other than the Canadian dollar. As at June 30, 2020 and December 31, 2019, the Fund does not hold significant amounts of investments and cash in foreign currencies and therefore the exposure to foreign currency risk is considered minimal.

The Fund does not enter into arrangements to hedge its foreign currency risk.

#### *Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's market price risk is managed through balanced investments in various income and equity securities derived from the global marketplace. The Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges.

The maximum market risk arising from financial instruments held is equivalent to the carrying value of those instruments.

If stock prices had increased or decreased by 5% as at June 30, 2020, with all other variables remaining constant, this would have increased or decreased the net assets attributable to holders of redeemable units by approximately 0.63% (December 31, 2019 – 0.81%).

#### *Concentration risk*

The Fund's concentration risk arises from concentrations of exposures of holdings within the same geographic sectors. As at June 30, 2020 and December 31, 2019, all of the Fund's investments were in Canadian bonds, equities and preferred shares.

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 8. Capital risk management:

Units issued and outstanding are considered to be the capital of the Fund. The Fund does not have any specific capital requirements on the subscription and redemption of units, other than certain minimum subscription requirements. Unitholders may require the Fund to redeem all or any part of such Unitholder's Units at a redemption amount equal to the Series' Net Asset Value of a unit, next determined after receipt by the Trustee of a request for redemption in such form as the Trustee shall reasonably determine from time to time. The units are redeemable for cash equal to a pro rata share of the Fund's net asset value.

## 9. Increase in net assets attributable to holders of redeemable units, per unit:

The increase in net assets attributable to holders of redeemable units, per unit for the period ended June 30, 2020 and 2019 is calculated as follows:

	Increase in Net Assets Attributable to Holders of Redeemable Units per Series	Weighted Average of Redeemable Units Outstanding During the Period	Increase in Net Assets Attributable to Holders of Redeemable Units per Unit
<b>June 30, 2020</b>			
Series A	\$ —	1 \$	—
Series F	2,791	29,717	0.09
Series O	976,283	5,297,608	0.18
<b>June 30, 2019</b>			
Class A	\$ 1	1 \$	0.47
Class F	12,206	30,495	0.40
Class O	2,550,984	5,112,553	0.50

# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

## 10. Comparison of Net Asset Value Trading NAV per unit and Net Assets attributable to holders of redeemable units IFRS:

The primary reason for the difference between "Trading NAV" per unit and the Net Asset attributable to holders of redeemable units per unit IFRS is due to offering costs including the initial organization costs of the Fund which have been expensed for financial reporting purposes and amortized over five years for the purpose of calculating the trading NAV.

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	Net Asset Value Per Unit (Transactional)	Unamortized Offering Cost Adjustment Per Unit	Net Assets Per Unit (IFRS)
<b>June 30, 2020</b>			
Series A	\$ 14.00	\$ (0.00)	\$ 14.00
Series F	10.90	(0.00)	10.90
Series O	12.64	(0.00)	12.64

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	Net Asset Value Per Unit (Transactional)	Unamortized Offering Cost Adjustment Per Unit	Net Assets Per Unit (IFRS)
<b>December 31, 2019</b>			
Series A	\$ 14.00	\$ (0.00)	\$ 14.00
Series F	10.89	(0.00)	10.89
Series O	12.62	(0.00)	12.62

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# HEWARD INCOME FUND

Notes to the financial statements

For the six-month period ended June 30, 2020 (Unaudited)

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## 11. Income taxes:

The Fund qualifies as a Mutual Fund Trust under the provisions of the *Income Tax Act* and accordingly, is not subject to tax on its net taxable income for the tax year, which ends in December, including net realized capital gains, which are paid or payable to its unitholders as at the end of the tax year. However, such part of the Fund's net income and net realized capital gains as is not so paid or payable is subject to income tax. Income tax on net realized capital gains not paid or payable is generally recoverable by virtue of refunding provisions contained in tax legislation, as redemptions occur. It is the intention of the Fund to distribute all of its income and sufficient net realized capital gains so that the Fund will not be subject to income tax.

Non-capital losses are available to be carried forward for twenty years and applied against future taxable income. Capital losses for income tax purposes may be carried forward indefinitely and applied against future capital gains.

As at the tax year ended December 31, 2019, the Fund has non capital losses of \$nil (December 31, 2018 - \$nil) available for carry-forward and capital losses of \$59,432 (December 31, 2018 - \$59,432) available for carry forward.

## 12. Filing exemption:

The Fund is relying on the exemption pursuant to Section 2.11 of "National Instrument 81-106" not to file its financial statements with the applicable Provincial Securities Commission.