

Financial Statements of

**LEITH WHEELER SHORT TERM  
INCOME FUND**

And Independent Auditors' Report thereon

Years ended December 31, 2021 and 2020





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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of the Leith Wheeler Short Term Income Fund

### **Opinion**

We have audited the financial statements of the Leith Wheeler Short Term Income Fund (the "Fund"), which comprise:

- the statements of financial position as at December 31, 2021 and December 31, 2020
- the statements of comprehensive income for the years then ended
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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

### **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 "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' 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. Other information comprises:

- the Annual Management Report of Fund Performance filed with the relevant Canadian Securities Commissions

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Annual Management Report of Fund Performance filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### **Responsibilities of the Manager and Those Charged with Governance for the Financial Statements**

The Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as the Manager 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, the Manager 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 the Manager 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.

### **Auditors' 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 auditors' 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 the 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 the Manager.
- Conclude on the appropriateness of the Manager'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 auditors' 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 auditors' 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.
- 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.

Chartered Professional Accountants

Vancouver, Canada  
March 30, 2022

# LEITH WHEELER SHORT TERM INCOME FUND

Statements of Financial Position

(Expressed in thousands of dollars except for per unit amounts)

December 31, 2021 and 2020

	Note	2021	2020
<b>Assets</b>			
Cash		\$ 4,769	\$ 7,794
Interest receivable		462	584
Subscriptions receivable		-	157
Investments		110,297	125,924
		115,528	134,459
<b>Liabilities</b>			
Amounts due to brokers		3,015	4,167
Management fees payable	1	3	4
Redemptions payable		178	-
		3,196	4,171
<b>Net assets</b> , attributable to holders of redeemable units		\$ 112,332	\$ 130,288
Represented by:			
Series A		\$ 95,654	\$ 112,459
Series B		13,962	14,087
Series I1		145	1,209
Series F		2,571	2,533
		\$ 112,332	\$ 130,288
Net assets, attributable to holders of redeemable units per unit:			
Series A		\$ 9.76	\$ 9.89
Series B		9.69	9.86
Series I1		10.10	10.17
Series F		9.38	9.51

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

Approved on behalf of the Board of Directors of  
Leith Wheeler Investment Counsel Ltd.,  
in its capacity as Manager.

“James F. Gilliland” Director “Jonathon D. Palfrey” Director

# LEITH WHEELER SHORT TERM INCOME FUND

Statements of Comprehensive Income

(Expressed in thousands of dollars except for per unit amounts)

Years ended December 31, 2021 and 2020

	Note	2021	2020
<b>Revenue:</b>			
Interest income		\$ 2,194	\$ 2,620
Changes in fair value of investments:			
Net realized gain (loss)		(1,159)	(349)
Net change in unrealized appreciation (depreciation)		(448)	164
<b>Total revenue (loss)</b>		<b>587</b>	<b>2,435</b>
<b>Expenses:</b>			
Management fees	1	99	121
Commissions and transaction costs		1	2
Filing fees		15	15
Audit fees		11	10
GST/HST		8	10
Custodial fees		6	8
Independent review committee fees		2	2
Legal fees		-	1
<b>Total operating expenses</b>		<b>142</b>	<b>169</b>
Management fee distributions	1	(6)	(14)
Expenses waived or absorbed by Manager		(84)	(102)
<b>Net operating expenses</b>		<b>52</b>	<b>53</b>
Increase (decrease) in net assets attributable to holders of redeemable units from operations excluding distributions			
		535	2,382
Distributions to holders of redeemable units:			
From net investment income		(2,158)	(2,585)
Management fee distributions	1	(6)	(14)
		(2,164)	(2,599)
Increase (decrease) in net assets attributable to holders of redeemable units			
		\$ (1,629)	\$ (217)
Increase (decrease) in net assets attributable to holders of redeemable units:			
Series A		\$ (1,353)	\$ (237)
Series B		(229)	2
Series I1		(9)	49
Series F		(38)	(31)
		\$ (1,629)	\$ (217)
Increase (decrease) in net assets attributable to holders of redeemable units per unit (excluding distributions):			
Series A		\$ 0.05	\$ 0.18
Series B		0.02	0.15
Series I1		0.04	0.21
Series F		0.02	0.12

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

# LEITH WHEELER SHORT TERM INCOME FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units  
(Expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

Series A	2021	2020
Balance, beginning of year	\$ 112,459	\$ 86,918
Increase (decrease) in net assets attributable to holders of redeemable units	(1,353)	(237)
Redeemable unit transactions:		
Issue of redeemable units	103,971	191,597
Reinvestment of distributions	1,828	2,255
Redemption of redeemable units	(121,251)	(168,074)
Net increase (decrease) from redeemable unit transactions	(15,452)	25,778
Balance, end of year	\$ 95,654	\$ 112,459

Series B	2021	2020
Balance, beginning of year	\$ 14,087	\$ 25,262
Increase (decrease) in net assets attributable to holders of redeemable units	(229)	2
Redeemable unit transactions:		
Issue of redeemable units	14,753	19,778
Reinvestment of distributions	247	213
Redemptions of redeemable units	(14,896)	(31,168)
Net increase (decrease) from redeemable unit transactions	104	(11,177)
Balance, end of year	\$ 13,962	\$ 14,087

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



# LEITH WHEELER SHORT TERM INCOME FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (continued)  
(Expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

Series I1	2021	2020
Balance, beginning of year	\$ 1,209	\$ 15,578
Increase (decrease) in net assets attributable to holders of redeemable units	(9)	49
Redeemable unit transactions:		
Issue of redeemable units	-	89
Reinvestment of distributions	12	33
Redemption of redeemable units	(1,067)	(14,540)
Net increase (decrease) from redeemable unit transactions	(1,055)	(14,418)
Balance, end of year	\$ 145	\$ 1,209
Series F	2021	2020
Balance, beginning of year	\$ 2,533	\$ 935
Increase (decrease) in net assets attributable to holders of redeemable units	(38)	(31)
Redeemable unit transactions:		
Issue of redeemable units	531	2,938
Reinvestment of distributions	38	41
Redemption of redeemable units	(493)	(1,350)
Net increase (decrease) from redeemable unit transactions	76	1,629
Balance, end of year	\$ 2,571	\$ 2,533

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

# LEITH WHEELER SHORT TERM INCOME FUND

## Statement of Cash Flows

(Expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (1,629)	\$ (217)
Adjustments for:		
Net realized (gain) loss from investments	1,159	349
Net change in unrealized (appreciation) depreciation from investments	448	(164)
Interest income	(2,194)	(2,620)
Amounts due to brokers	(1,152)	1,158
Management fees payable	(1)	(1)
Redemptions payable	178	(49)
Subscriptions receivable	157	(157)
Proceeds from sale of investments	205,037	293,552
Purchases of investments	(191,017)	(291,582)
Interest received	2,316	2,646
	13,302	2,915
Financing activities:		
Proceeds from issue of redeemable units	119,255	214,402
Reinvestment of distributions	2,125	2,542
Payments on redemption of redeemable units	(137,707)	(215,132)
	(16,327)	1,812
Net increase (decrease) in cash	(3,025)	4,727
Cash, beginning of year	7,794	3,067
Cash, end of year	\$ 4,769	\$ 7,794

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

# LEITH WHEELER SHORT TERM INCOME FUND

Schedule of Investment Portfolio  
(Expressed in thousands of dollars)

December 31, 2021

Security	Coupon rate %	Maturity	Par value	Cost	Fair value	% of Net assets
<b>BONDS AND GUARANTEES</b>						
<b>Federal Bonds and Guarantees:</b>						
Canadian Government Bond	0.250	1-May-23	\$ 5,000	\$ 4,947	\$ 4,962	
Canadian Government Bond	2.750	1-Jun-22	6,000	6,120	6,060	
				<u>11,067</u>	<u>11,022</u>	<u>9.8</u>
<b>Investment Grade Corporate Bonds and Guarantees:</b>						
407 International Inc	2.470	8-Sep-22	5,000	5,045	5,038	
Bank of Nova Scotia	2.360	8-Nov-22	2,000	2,046	2,025	
Canadian Imperial Bank of Commerce	2.470	5-Dec-22	5,500	5,633	5,579	
Canadian Imperial Bank of Commerce	0.730	10-Jun-24	3,000	3,000	3,005	
Canadian Western Bank	2.740	16-Jun-22	3,000	3,050	3,028	
Canadian Western Bank	2.830	14-Mar-22	2,000	2,052	2,009	
Canadian Western Bank	0.760	22-Jan-24	3,000	3,000	3,002	
Choice Properties LP	3.600	20-Sep-22	2,000	2,071	2,024	
CT Real Estate Investment Trust	2.850	9-Jun-22	1,000	1,027	1,007	
Dream Industrial Real Estate Investment Trust	0.800	17-Jun-24	2,000	2,000	1,997	
Enbridge Inc	3.940	13-Jan-23	5,000	5,159	5,134	
Federation des Caisses Desjardins du Quebec	0.300	23-Aug-22	2,000	2,000	1,999	
First Capital Real Estate Investment Trust	3.950	5-Dec-22	5,000	5,120	5,117	
Ford Auto Securitization Trust	2.320	15-Jul-22	536	543	538	
GE Capital Canada Funding Co	4.600	26-Jan-22	6,500	6,598	6,514	
Glacier Credit Card Trust	2.050	20-Sep-22	2,000	2,033	2,016	
Greater Toronto Airports Authority	3.040	21-Sep-22	3,000	3,091	3,031	
Honda Canada Finance Inc	0.770	19-Sep-22	5,000	5,001	5,006	
Honda Canada Finance Inc	0.650	27-Sep-24	2,000	2,000	2,002	
Magna International Inc	3.100	15-Dec-22	4,000	4,106	4,070	
Manulife Bank of Canada	2.840	12-Jan-23	3,000	3,087	3,055	
Royal Bank of Canada	0.590	27-Jun-22	3,000	2,931	3,004	
Royal Bank of Canada	0.330	24-Nov-22	7,000	7,000	6,999	
Sun Life Financial Inc	2.750	23-Nov-27	3,011	3,057	3,051	
TransCanada Pipelines Ltd	0.790	9-Jun-24	1,000	1,000	1,001	
				<u>81,650</u>	<u>81,251</u>	<u>72.3</u>
<b>Maples</b>						
Goldman Sachs Group Inc	0.850	29-Apr-25	4,000	4,002	4,007	
Morgan Stanley	0.780	3-Feb-23	2,000	2,003	2,000	
Morgan Stanley	0.780	21-Mar-25	5,000	5,000	5,006	
Wells Fargo & Co	2.090	25-Apr-22	3,000	3,015	3,014	
				<u>14,020</u>	<u>14,027</u>	<u>12.5</u>
<b>TOTAL BONDS AND GUARANTEES</b>				<b>\$ 106,737</b>	<b>\$ 106,300</b>	<b>94.6</b>
<b>MONEY MARKET SECURITIES</b>				<b>\$ 3,997</b>	<b>\$ 3,997</b>	<b>3.6</b>
<b>TOTAL INVESTMENT PORTFOLIO</b>				<b>\$ 110,734</b>	<b>\$ 110,297</b>	<b>98.2</b>
<b>OTHER ASSETS LESS LIABILITIES</b>					<b>2,035</b>	<b>1.8</b>
<b>NET ASSETS</b>					<b>\$ 112,332</b>	<b>100.0</b>

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

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - Fund Specific Information  
(Tabular amounts expressed in thousands of dollars or units)

Years ended December 31, 2021 and 2020

The Fund Specific Information for Leith Wheeler Short Term Income Fund (the "Fund") contained herein should be read in conjunction with the "Notes to Financial Statements - General Information related to all Leith Wheeler Investment Funds" beginning after the "Notes to Financial Statements - Fund Specific Information".

## 1. Management fees and expenses:

Management fees in respect of Series B are calculated at a maximum of 0.65% per annum, before GST/HST, of the daily Net Asset Value of Series B. Management fees in respect of Series I1 are calculated at a maximum of 0.45% per annum, before GST/HST, of the daily Net Asset Value of Series I1. Management fees in respect of Series F are calculated at a maximum of 0.45% per annum, before GST/HST, of the daily Net Asset Value of Series F. The Manager has temporarily reduced the management fees from 0.65% to 0.35% for Series B (effective April 25, 2017), 0.45% to 0.15% for Series I1 (effective March 20, 2018) and 0.45% to 0.25% for Series F (effective May 18, 2018). The amount of the waiver is determined by the Manager and the maximum fees may be restored by the Manager at any time. Management fee distributions for the year ended December 31, 2021 were approximately \$6,000 (2020 - \$14,000). No management fees were paid with respect to Series A units.

## 2. Withholding tax and other income taxes:

Certain dividends and interest received by the Fund are subject to withholding tax imposed in the country of origin. During the year, withholding tax rates were between 0% and 35% (2020 - between 0% and 35%).

The Fund has capital losses of approximately \$2,541,000 (2020 - \$1,371,000) available for utilization against capital gains in future years. The Fund has non-capital losses of nil (2020 - nil) available for utilization against net realized capital gains or non-capital gains in future years.

## 3. Redeemable units:

The redeemable unit transactions for the Fund during the years ended December 31, 2021 and 2020 are as follows:

	Outstanding units at beginning of year	Issued during the year	Issued on reinvestment of distributions	Redeemed during the year	Outstanding units at end of year
Series A:					
2021	11,370	10,573	186	(12,324)	9,805
2020	8,769	19,341	228	(16,968)	11,370
Series B:					
2021	1,429	1,510	25	(1,523)	1,441
2020	2,569	2,007	22	(3,169)	1,429
Series I1:					
2021	119	-	1	(106)	14
2020	1,551	9	3	(1,444)	119
Series F:					
2021	266	56	4	(52)	274
2020	97	305	4	(140)	266

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - Fund Specific Information  
(Tabular amounts expressed in thousands of dollars or units)

Years ended December 31, 2021 and 2020

## 4. Financial management:

The investment objective of the Fund is to provide a relatively stable source of monthly income. The Fund will invest in fixed income securities (including corporate bonds, preferred shares, high-yield debt, loans, convertible debt and guaranteed mortgages). The Fund is not exposed to significant currency or other price risks.

For a comprehensive discussion of the risks applicable to the Fund refer to note 6 under the "General Information related to all Leith Wheeler Investment Funds". Financial risks applicable to the Fund are discussed in more detail below.

### (a) Credit risk:

The majority of the credit risk to which the Fund is exposed is concentrated in debt securities. Credit risk arising from other financial instruments is not considered significant. At December 31, 2021 and 2020, the Fund was invested in debt securities with the following credit quality:

	2021	2020
<b>Rating:</b>		
AAA	15.6%	20.3%
AA	9.0%	17.8%
A	49.1%	28.4%
BBB	26.3%	33.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Credit ratings are obtained from Standard & Poor's, Moody's, Fitch and/or Dominion Bond Rating Services. Where one or more rating is obtained for a security, the most common rating has been used.

### (b) Liquidity risk:

The Fund's redeemable units are due on demand. The Fund's remaining liabilities are due within twelve months of the year-end of the Fund.

### (c) Market risk:

#### (i) Interest rate risk:

The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity as at December 31:

	2021	2020
	% of total debt securities	% of total debt securities
Term to maturity		
Less than 1 year	66.9%	75.2%
1 to 5 years	33.1%	24.8%
5 to 10 years	-	-
More than 10 years	-	-
<b>Total debt securities</b>	<b>100.0%</b>	<b>100.0%</b>

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - Fund Specific Information  
(Tabular amounts expressed in thousands of dollars or units)

Years ended December 31, 2021 and 2020

## 4. Financial risk management (continued):

(c) Market risk (continued):

(i) Interest rate risk (continued):

The Manager has determined that a fluctuation in interest rates of 1% is reasonably possible, considering the economic environment in which the Fund operates. As at December 31, 2021 and 2020, had interest rates increased or decreased by 1%, with all other factors remaining constant, net assets attributable to redeemable units would have increased or decreased by approximately \$528,000 and \$691,000, respectively. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

## 5. Fair value of financial instruments:

For a general discussion of the Fund's fair value measurements, refer to note 7 under the "General Information related to all Leith Wheeler Investment Funds".

(a) Fair value hierarchy - financial instruments measured at fair value:

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

All fair value measurements below are recurring.

<b>December 31, 2021</b>	Level 1	Level 2	Level 3	Total
Bonds (including Mortgage Backed Securities)	\$ -	\$ 106,300	\$ -	\$ 106,300
Short Term Notes	-	3,997	-	3,997
	\$ -	\$ 110,297	\$ -	\$ 110,297

<b>December 31, 2020</b>	Level 1	Level 2	Level 3	Total
Bonds (including Mortgage Backed Securities)	\$ -	\$ 114,044	\$ -	\$ 114,044
Short Term Notes	-	11,880	-	11,880
	\$ -	\$ 125,924	\$ -	\$ 125,924

During the year, there were no transfers of financial instruments between the three levels (2020 - nil).

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds

(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

## 1. Reporting entity:

The Leith Wheeler Investment Funds (individually, a "Fund" and collectively, the "Funds") consist of:

Fund	Inception
Leith Wheeler Balanced Fund	September 22, 1987
Leith Wheeler Canadian Dividend Fund	December 21, 2010
Leith Wheeler Canadian Equity Fund	April 27, 1994
Leith Wheeler Carbon Constrained Canadian Equity Fund	September 27, 2017
Leith Wheeler Core Bond Fund	April 27, 1994
Leith Wheeler Corporate Advantage Fund	May 29, 2015
Leith Wheeler Emerging Markets Equity Fund	May 19, 2017
Leith Wheeler High Yield Bond Fund	May 27, 2015
Leith Wheeler Income Advantage Fund	December 21, 2010
Leith Wheeler International Equity Plus Fund	October 31, 2007
Leith Wheeler Money Market Fund	April 27, 1994
Leith Wheeler Multi Credit Fund	May 30, 2017
Leith Wheeler Preferred Share Fund	May 22, 2018
Leith Wheeler Short Term Income Fund	December 15, 2016
Leith Wheeler U.S. Dividend Fund	September 26, 2016
Leith Wheeler U.S. Equity Fund	April 27, 1994
Leith Wheeler U.S. Small/Mid-Cap Equity Fund	October 27, 2016

The Funds were established under the laws of British Columbia pursuant to various trust indentures between Leith Wheeler Investment Counsel Ltd., as manager (the "Manager"), and Canada Trust Company, as trustee. The Funds' current trustee is CIBC Mellon Trust Company and the Funds' custodian is CIBC Mellon.

The trust indentures for all the above Funds allow for an unlimited number of series and an unlimited number of units of each series. Currently authorized series of units are as follows: Series A and Series A (CAD Hedged), Series B and Series B (CAD Hedged), Series F and Series F (CAD Hedged), Series FP1 and Series I1.

Series A and Series A (CAD Hedged) units have no management fees. Unitholders of Series A and Series A (CAD Hedged) units pay a negotiated fee directly to the Manager and are available to investors that satisfy certain criteria related to the nature of the investors and certain other matters as established by the Manager. Series B and Series B (CAD Hedged) units carry management fees and are available to all investors. Series F, Series F (CAD Hedged), Series FP1 and Series I1 units carry reduced management fees and are available to investors who have accounts with dealers who have signed a fee-based agreement with the Manager.

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds

(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

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## 1. Reporting entity (continued):

The Leith Wheeler High Yield Bond Fund has Series A, Series A (CAD Hedged), Series B and Series B (CAD Hedged) and Series F and Series F (CAD Hedged) units outstanding. The Leith Wheeler U.S. Dividend Fund has Series A, Series B, Series F and Series FP1 units outstanding. The Leith Wheeler Short Term Income Fund has Series A, Series B, Series F and Series I1 units outstanding. The Leith Wheeler Balanced Fund, Leith Wheeler Canadian Dividend Fund, Leith Wheeler Carbon Constrained Canadian Equity Fund, Leith Wheeler Corporate Advantage Fund, Leith Wheeler Emerging Markets Equity Fund, Leith Wheeler Income Advantage Fund, Leith Wheeler International Equity Plus Fund, Leith Wheeler Multi Credit Fund, Leith Wheeler Preferred Share Fund, Leith Wheeler U.S. Equity Fund and Leith Wheeler U.S. Small/Mid-Cap Equity Fund have Series A, Series B and Series F units outstanding. All other remaining Funds have Series A and Series B units outstanding.

The information provided in these financial statements and notes thereto is for the years ended December 31, 2021 and 2020. In the year a Fund or series is established, "period" represents the time period from inception to December 31 of that fiscal year.

The general information related to all Funds presented here should be read in conjunction with each respective Fund's "Notes to Financial Statements - Fund Specific Information".

The Funds are unit trusts domiciled in Canada. The address of the Funds' registered office is at 1500 - 400 Burrard Street, Vancouver B.C., V6C 3A6.

## 2. Basis of preparation:

### (a) Statement of compliance:

The financial statements of the Funds have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements were authorized for issue by the Manager on March 30, 2022.

### (b) Basis of measurement:

The financial statements have been prepared on a historical cost basis except for investments and derivatives, which are measured at fair value.

### (c) Functional and presentation currency:

The Funds', with the exception of the Leith Wheeler U.S. Dividend Fund, have their subscriptions, redemptions, price and performance denominated in Canadian dollars, which is their functional and presentation currency. The Leith Wheeler U.S. Dividend Fund has its subscriptions, redemptions, price and performance denominated in U.S. dollars, which is the functional and presentation currency of that respective Fund.



# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds

(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

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## 2. Basis of preparation (continued):

### (d) Use of estimates and judgment:

The preparation of financial statements in conformity with IFRS requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected.

## 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### (a) Financial instruments:

#### (i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities are recognized initially on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows and sell financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal interest on the principal amount outstanding.

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

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

#### (a) Financial instruments (continued):

##### (i) Recognition and measurement (continued):

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition the Fund may irrevocably elect to measure financial assets that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL when doing so results in more relevant information.

Financial assets are not reclassified subsequent to their initial recognition, unless the Fund changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Fund has not classified any of its financial assets as FVOCI.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivatives liabilities. The Fund may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

##### (ii) Fair value through profit and loss:

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statements of comprehensive income in the period in which they occur. The Fund's derivative financial assets and derivative financial liabilities and investments in securities and investments sold short are classified as FVTPL.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds

(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

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## 3. Significant accounting policies (continued):

### (a) Financial instruments (continued):

#### (ii) Fair value through profit and loss (continued):

The fair value of financial assets and liabilities that are not traded in an active market, including non-publicly traded derivative instruments, is determined using valuation techniques. Valuation techniques also include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

#### (iii) Amortized cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Fund classifies cash, dividends receivable, interest receivable, subscriptions receivable, balances due from brokers, daily variation margins, other receivables, bank indebtedness, management fees payable, performance fees payable, redemptions payable, balances due to brokers and other accrued liabilities as amortized cost.

### (b) Redeemable units:

The Funds classify financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The redeemable units are designated as financial liabilities at FVTPL because they are managed and their performance evaluated on a fair value basis. The redeemable units provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Funds' valuation policies at each redemption date. Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of the Manager.

### (c) Increase (decrease) in net assets attributable to holders of redeemable units per unit (excluding distributions):

The increase (decrease) in net assets attributable to holders of redeemable units per unit (excluding distributions) is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units, prior to the deduction of distributions recognized in comprehensive income, by the weighted average number of units outstanding during the period.

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

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

(d) Foreign exchange:

The financial statements of the Funds are denominated in Canadian dollars, with the exception of the Leith Wheeler U.S. Dividend Fund, which is denominated in U.S. dollars. Foreign denominated investments and other foreign denominated assets and liabilities are translated into functional currency using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the statement of comprehensive income.

(e) Income recognition:

Interest income is recognized on an accrual basis. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Income and capital gains distributions from pooled fund investments are recorded at the distribution date and maintain the same classification. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments and unrealized appreciation/depreciation in investments are determined on the average cost basis of the respective investments.

(f) Income taxes:

The Funds qualify as unit trusts under the Income Tax Act (Canada). All of the Funds' net income for tax purposes and net capital gains realized in any year are required to be distributed to unitholders such that no income tax is payable by the Funds. As a result, the Funds do not record income taxes.

Net capital losses are available to be carried forward indefinitely and applied against future net realized capital gains. Non-capital losses may be carried forward up to 20 years to reduce future taxable income.

(g) New standards and interpretations not yet adopted:

The Manager has determined there are no material implications to the Funds' financial statements arising from IFRS issued but not yet effective.

### 4. Related party transactions:

(a) Management fees:

The Manager is paid a management fee by the Funds, calculated daily and paid quarterly, as compensation for its services. No management fees are paid by the Funds with respect to Series A and Series A (CAD Hedged) units. Series A and Series A (CAD Hedged) unitholders pay a negotiated fee directly to the Manager outside of the Fund for investment management services.

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds

(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

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## 4. Related party transactions (continued):

### (b) Operating expenses:

The Manager is also entitled to reimbursement of reasonable operating expenses incurred on behalf of the Fund in connection with charges made for registry and transfer agency services, dividend and distribution crediting services, services required in connection with the provision of information and reports to unitholders and holding unitholders' meetings, independent review committee, interest expense, accounting, audit, recordkeeping and legal fees, and custodian and safekeeping charges. The Funds pay brokerage commissions, transaction costs and taxes.

The Manager has at times absorbed certain expenses incurred on behalf of the Funds, in which case such amounts are shown as a deduction from expenses in the respective Fund's statement of comprehensive income. The Manager is under no legal obligation to continue these arrangements, and may terminate them at any time.

## 5. Capital management:

The redeemable units issued by the Funds represent the capital of the Funds. The Funds are not subject to any internally or externally imposed restrictions on its capital. The Funds' objectives in managing the redeemable units are to ensure a stable base to maximize returns to all investors and to manage liquidity risk arising from redemptions.

## 6. Financial risk management:

The following is a general discussion of the financial risks to which the Funds are exposed. Refer to the discussion on financial risk management (note 4) in the Fund Specific Information following each Fund's financial statements for information specific to the respective Fund.

On March 11, 2020, the emergence and rapid spread of the coronavirus disease 2019 ("COVID-19") was officially declared a pandemic by the World Health Organization. As a result, there has been significant volatility in equity prices, interest rates, bond yields, and foreign exchange rates, which have impacted the market value of the net assets of the Fund(s). The effect of COVID-19 remains an emerging and rapidly evolving issue, leading to a high degree of volatility and uncertainty that will likely impact worldwide financial markets beyond 2020.

### Risk management framework:

The Funds use financial instruments in order to achieve their respective investment objectives. The Funds' investments are presented in each Fund's respective schedule of investment portfolio, which groups securities by asset type, geographic region and/or market segment.

The use of financial instruments subjects the Funds to a variety of financial instrument risks. The Funds' risk management practices include setting investment policies to limit exposures to financial instrument risks and employing experienced and professional investment advisors to invest the Funds' capital in securities within the constraints of investment policies. The Manager regularly monitors the Funds' performance and compliance with the investment policies.

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

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## 6. Financial risk management (continued):

The significant financial instrument risks, to which the Funds are exposed, along with the specific risk management practices related to those risks, are discussed below.

### (a) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from debt securities held, derivative financial assets, cash, and other receivables due to the Fund. The carrying value of these financial instruments as recorded in the statements of financial position reflects the Fund's maximum exposure to credit risk.

The risk management strategy for the Funds is to invest primarily in debt obligations of high credit quality issuers and to limit the amount of credit exposure with respect to any one corporate issuer.

Credit risk is mitigated by investing primarily in rated instruments. The Funds receive daily rating updates, which are reviewed accordingly. Credit risk is monitored on a daily basis by the Manager in accordance with the Funds' investment policies. If the credit risk is not in accordance with the investment policy or guidelines of the Fund, then the Manager is obliged to rebalance the portfolio as soon as practicable.

The Funds' activities may give rise to settlement risk. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities, or other assets as contractually agreed. For the majority of transactions, the Funds mitigate this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

### (b) Liquidity risk:

Liquidity risk is the risk that the Funds will encounter difficulty in meeting the obligations associated with their financial liabilities that are settled by delivering cash or another financial asset.

The Funds' policy and the Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, including estimated redemptions of units, without incurring unacceptable losses or risking damage to the Funds' reputation.

The Funds' prospectus provides for the daily cash redemptions of redeemable units and the Funds are therefore exposed to the liquidity risk of meeting unitholder redemptions at any time.

Liquidity risk is managed by investing the majority of a Funds' assets in investments that are traded in an active market and can be readily disposed. In addition, the Funds retain sufficient cash positions to maintain liquidity. The Funds are also subject to the requirements of NI 81-102, where each respective Fund shall not purchase an illiquid asset if, immediately after the purchase, more than 10 percent of the net assets of that particular Fund, taken at market value at the time of purchase, would consist of illiquid assets.

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds

(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

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## 6. Financial risk management (continued):

### (c) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Funds' income or the fair value of their holdings of financial instruments.

The Funds' market risk is managed on a daily basis by the Manager in accordance with the policies and procedures in place.

#### (i) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of interest-bearing financial instruments will fluctuate as a result of changes in market interest rates. In general, as interest rates rise, the fair value of interest bearing financial instruments will fall. Financial instruments with a longer term to maturity will generally have a higher interest rate risk.

Interest rate risk management practices include setting target durations based on the appropriate benchmark indices and monitoring the Funds' durations relative to the benchmarks. If interest rates are anticipated to rise, the Funds' durations can be shortened to limit potential losses. Conversely, if interest rates are anticipated to fall, the durations can be lengthened to increase potential gains.

#### (ii) Currency risk:

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of a Fund, will fluctuate due to changes in foreign exchange rates. Equities in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to a Fund's functional currency in determining fair value.

Currency risk may be moderated by the Manager through the use of foreign currency contacts to hedge foreign currency exposures.

#### (iii) Other price risk:

Other price risk is the risk that the fair 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 or its issuer, or factors affecting all instruments traded in the market.

Other price risk is moderated by the Manager through a careful selection of securities within specified limits and the Funds' price risk is managed through diversification of the respective Fund. The Manager monitors the Funds' overall market positions on a daily basis and positions are maintained within established ranges.

# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds

(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

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## 7. Fair value of financial instruments:

### (a) Valuation models:

The Funds measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs that are unobservable.

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. Observable prices and model inputs are usually available in the market for listed debt and equity securities, and exchange-traded derivatives, such as futures. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. Where observable market prices and model inputs are not available, the Funds determine fair values using other valuation techniques. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Funds' equity and futures positions are classified as Level 1 when the security is actively traded and a reliable quoted market price is observable.

Investments in securities of another investment fund are classified as Level 1 when the investment fund is actively traded and a reliable price is observable.

Bonds and other debt securities are valued based on a matrix pricing process using multiple dealer quotations or alternative pricing sources supported by observable inputs and are classified within Level 2.

Forward foreign currency contracts are valued using present value techniques and market observable input data and accordingly are classified as Level 2.

Short-term investments and money market securities are classified as Level 2 as these instruments are valued at amortized cost, which approximates their fair value.

The Funds' net assets attributable to holders of redeemable units are classified as Level 2 since the carrying amount approximates fair value as the units are measured at the redemption amount.

Refer to the fair value of financial instruments (note 5) in the Fund Specific Information following each Fund's respective financial statements for further discussion of the respective Fund's fair value measurements.



# LEITH WHEELER SHORT TERM INCOME FUND

Notes to Financial Statements - General Information Related to All Leith Wheeler Investment Funds  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2021 and 2020

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## **7. Fair value of financial instruments (continued):**

### **(b) Financial instruments not measured at fair value:**

The carrying value of cash, subscriptions receivable, amounts due from brokers, interest and dividends receivable, redemptions payable, amounts due to or from brokers, management fees payable, due to Manager, accounts payable, and distributions payable, approximates their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.

## **8. Subsequent events:**

In February 2022, events concerning Russia and Ukraine have resulted in sanctions being levied against Russian interests by numerous countries. As a result of this ongoing situation, the price and liquidity of securities of issuers connected to Russia have declined significantly. The duration and extent of the impact of this situation remain unclear at this time. As at December 31, 2021, Leith Wheeler Emerging Markets Equity Fund had direct exposure to Russian securities, which represented 2.9% of the net asset value of the fund. These securities have subsequently been written down to nil due to the inability to trade them. The Manager is actively monitoring the situation.