

# CYMBRIA CORPORATION

**2019**

**Financial Statements**

*Years ended December 31, 2019 and 2018*

# CYMBRIA CORPORATION

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying Financial Statements have been prepared by the Manager, EdgePoint Investment Group Inc., on behalf of Cymbria Corporation ("Cymbria"). Management is responsible for the information and representations contained in these Financial Statements.

Management has maintained appropriate processes to ensure that relevant and reliable financial information is produced. The Financial Statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts based on estimates and assumptions. The significant accounting policies that management believes are appropriate for Cymbria are described in Note 3 to the Financial Statements.

KPMG LLP, Cymbria's external auditor, has audited the Financial Statements in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the Financial Statements. Their report, as auditors, is set forth herein.

The Board of Directors is responsible for reviewing and approving Cymbria's Financial Statements, overseeing management's performance of its financial reporting responsibilities and engaging the independent auditors. The Board of Directors is composed of three members who are independent of management. For all share classes of Cymbria, the Financial Statements have been reviewed and approved by the Board of Directors.



Patrick Farmer  
Chairman  
March 12, 2020



Norman Tang  
Chief Financial Officer  
March 12, 2020

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## Independent Auditors' Report

To the Shareholders of Cymbria Corporation

### **Opinion**

We have audited the financial statements of Cymbria Corporation (the Entity), which comprise:

- the statements of financial position as at December 31, 2019 and 2018
- the statements of comprehensive income for the years then ended
- the statements of changes in equity 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 Entity as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (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 Entity 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 information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions
- the information, other than the financial statements and the auditors' report thereon, included in the "Annual Report"

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.

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# CYMBRIA CORPORATION

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We obtained the information included in Management's Discussion and Analysis and the Annual Report 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 Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Entity'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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity'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 Entity 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Peter Hayes

Toronto, Canada

March 12, 2020

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# CYMBRIA CORPORATION

*Statements of Financial Position*  
(in '000s except per share amounts and number of shares)  
As at December 31, 2019 and 2018

	2019	2018
<b>Assets</b>		
Investments	\$ 905,555	\$ 827,789
EdgePoint Wealth Management Inc.	254,431	224,121
Foreign exchange forward contracts	2,241	–
Total financial assets at fair value through profit or loss*	1,162,227	1,051,910
Cash and cash equivalents	85,283	20,325
Receivable for investments sold	63	116
Dividends and interest receivable	762	530
Income tax recovery	7,016	–
<b>Total Assets</b>	<b>\$ 1,255,351</b>	<b>\$ 1,072,881</b>
<b>Liabilities</b>		
Payable for investments purchased	\$ 1,009	\$ 427
Accrued liabilities	–	75
Foreign exchange forward contracts	59	3,769
Credit facility (Note 9)	6,000	–
Income taxes payable	–	2,590
Total current liabilities	7,068	6,861
Deferred share unit plan liability (Note 7)	1,018	940
Deferred income tax liability (Note 10)	39,529	27,803
<b>Total Liabilities</b>	<b>\$ 47,615</b>	<b>\$ 35,604</b>
<b>Shareholders' equity</b>		
Share capital (Note 5)	\$ 220,034	\$ 220,034
Retained earnings (Note 6)	987,702	817,243
<b>Total Shareholders' Equity</b>	<b>\$ 1,207,736</b>	<b>\$ 1,037,277</b>
<b>Shareholders' equity</b>		
Common stock	\$ –	\$ –
Class A	806,682	682,289
Class J	401,054	354,988
<b>Number of shares outstanding (Note 5)</b>		
Class A	15,694,001	15,438,357
Class J	7,049,982	7,281,482
<b>Total shareholder's equity per share</b>		
Class A	\$ 51.40	\$ 44.19
Class J	\$ 56.89	\$ 48.75

\*Cost of investments is reflected in the *Schedule of Investment Portfolio*.

Certain comparative figures have been reclassified to conform with the current year's presentation.  
The accompanying notes are an integral part of these annual Financial Statements.

ON BEHALF OF THE BOARD:



Reena Carter, Director



James MacDonald, Director

**CYMBRIA CORPORATION**

Statements of Comprehensive Income  
(in '000s except per share amounts)  
Years ended December 31, 2019 and 2018

	2019	2018
<b>Income</b>		
Dividends from EdgePoint Wealth Management Inc.	\$ 22,016	\$ 14,070
Dividends	25,293	13,242
Interest for distribution purposes	1,338	399
Foreign currency gain (loss) on cash and other net assets	(184)	259
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain (loss) on investments	69,142	124,909
Net realized gain (loss) on foreign exchange forward contracts	(1,840)	184
Change in unrealized appreciation (depreciation) on investments	82,581	(113,663)
Change in unrealized appreciation (depreciation) on foreign exchange forward contracts	5,951	(4,726)
<b>Total Income</b>	<b>\$ 204,297</b>	<b>\$ 34,674</b>
<b>Expenses (Note 8)</b>		
Management fees	\$ 7,793	\$ 7,387
Net withholding tax	1,664	1,578
Harmonized Sales Tax	1,275	1,254
Operating expenses	1,105	1,261
Investment and portfolio maintenance	1,012	1,000
Interest Expense (Note 9)	487	340
Transaction costs	343	638
<b>Total Expenses</b>	<b>\$ 13,679</b>	<b>\$ 13,458</b>
<b>Profit for the year before taxes</b>	<b>\$ 190,618</b>	<b>\$ 21,216</b>
<b>Income taxes (recovery)</b>		
Current	\$ 8,433	\$ 15,207
Deferred	11,726	(15,735)
<b>Total Income Taxes</b>	<b>\$ 20,159</b>	<b>\$ (528)</b>
<b>Net income</b>	<b>\$ 170,459</b>	<b>\$ 21,744</b>
<b>Net income, by class</b>		
Class A	\$ 111,628	\$ 11,825
Class J	\$ 58,831	\$ 9,919
<b>Net income, per share</b>		
Class A	\$ 7.15	\$ 0.80
Class J	\$ 8.25	\$ 1.25

The accompanying notes are an integral part of these annual Financial Statements.

**CYMBRIA CORPORATION**

*Statements of Changes in Equity  
(in '000s)  
Years ended December 31, 2019 and 2018*

	<b>2019</b>	<b>2018</b>
<b>Class A:</b>		
Shareholders' equity, beginning of the year	\$ 682,289	\$ 627,136
Net income, by class	111,628	11,825
Capital transactions:		
Class J to Class A share exchanges	2,399	9,049
Cumulative surplus on Class J to Class A share exchanges	(84)	(300)
Surplus	10,450	34,579
	124,393	55,153
Shareholders' equity, end of the year	\$ 806,682	\$ 682,289
<b>Class J:</b>		
Shareholders' equity, beginning of the year	\$ 354,988	\$ 388,397
Net income, by class	58,831	9,919
Capital transactions:		
Class J to Class A share exchanges	(2,315)	(8,749)
Surplus	(10,450)	(34,579)
	46,066	(33,409)
Shareholders' equity, end of the year	\$ 401,054	\$ 354,988

The accompanying notes are an integral part of these annual Financial Statements.

**CYMBRIA CORPORATION**

Statements of Cash Flows

(in '000s)

Years ended December 31, 2019 and 2018

	<b>2019</b>	<b>2018</b>
<b>Cash Flow from Operating Activities</b>		
Net income	\$ 170,459	\$ 21,744
Adjustments for:		
Foreign currency (gain) loss on cash and other net assets	184	(259)
Net realized (gain) loss on investments	(69,142)	(124,909)
Net realized (gain) loss on foreign exchange forward contracts	1,840	(184)
Change in unrealized (appreciation) depreciation on investments and EdgePoint Wealth Management Inc.	(82,581)	113,663
Change in unrealized (appreciation) depreciation on foreign exchange forward contracts	(5,951)	4,726
(Increase) decrease in dividends and interest receivable	(232)	(175)
Increase (decrease) in accrued liabilities and other payables	(9,603)	568
Increase (decrease) in deferred income tax liability	11,726	(15,735)
Purchase of investments	(257,213)	(461,463)
Proceeds from sales of investments	299,655	413,867
<b>Net Cash Generated (Used) by Operating Activities</b>	<b>\$ 59,142</b>	<b>\$ (48,157)</b>
<b>Cash Flows from Financing Activities</b>		
Issuance of credit facility, net of repayments	\$ 6,000	\$ -
<b>Net Cash Generated (Used) by Financing Activities</b>	<b>\$ 6,000</b>	<b>\$ -</b>
Net increase (decrease) in cash and cash equivalents	\$ 65,142	\$ (48,157)
Foreign currency gain (loss) on cash and other net assets	(184)	259
Cash and cash equivalents, beginning of the year	20,325	68,223
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 85,283</b>	<b>\$ 20,325</b>
Cash and cash equivalents comprise:		
Cash at bank	\$ 85,283	\$ 20,325
	<b>\$ 85,283</b>	<b>\$ 20,325</b>
Interest received, net of withholding tax	\$ 1,338	\$ 397
Dividends received, net of withholding tax	\$ 45,413	\$ 25,559
Interest paid	\$ (443)	\$ (434)
Income taxes paid	\$ (18,039)	\$ (14,803)

The accompanying notes are an integral part of these annual Financial Statements.

# CYMBRIA CORPORATION

Schedule of Investment Portfolio  
(in '000s except number of shares/units)  
As at December 31, 2019

Number of shares/units	Security	Average cost	Fair value	% of shareholders' equity
<b>Equities</b>				
<b>Banks</b>				
575,753	Wells Fargo & Co.	\$ 30,862	\$ 40,223	3.3%
		30,862	40,223	3.3%
<b>Consumer Discretionary</b>				
1,028,634	Subaru Corp.	42,946	33,358	2.8%
1,500,267	Mattel Inc.	26,566	26,398	2.2%
186,269	Cie Financiere Richemont SA	20,551	19,010	1.6%
259,455	Aramark Corp.	12,841	14,622	1.2%
1,077,040	AutoCanada Inc.	11,195	13,344	1.1%
		114,099	106,732	8.8%
<b>Consumer Staples</b>				
503,841	Shiseido Co., Ltd.	17,305	46,859	3.9%
143,004	PriceSmart, Inc.	14,136	13,188	1.1%
		31,441	60,047	5.0%
<b>Diversified Financials</b>				
279,585	EdgePoint Wealth Management Inc.	509	254,431	21.1%
75	Berkshire Hathaway Inc., Class A	23,368	33,073	2.7%
290,052	Affiliated Managers Group Inc.	45,794	31,917	2.6%
35,793	Berkshire Hathaway Inc., Class B	6,428	10,528	0.9%
		76,099	329,949	27.3%
<b>Energy</b>				
1,261,844	PrairieSky Royalty Ltd.	33,289	19,218	1.6%
2,700,887	CES Energy Solutions Corp.	9,717	6,293	0.5%
		43,006	25,511	2.1%
<b>Health Care</b>				
352,564	Shionogi & Co., Ltd.	24,983	28,513	2.4%
1,285,260	Swedish Orphan Biovitrum AB	29,466	27,530	2.3%
38,802	Genmab A/S	7,647	11,205	0.9%
9,431	Eurofins Scientific SE	5,213	6,789	0.6%
		67,309	74,037	6.1%
<b>Industrials</b>				
454,019	CSX Corp.	31,483	42,661	3.5%
659,809	Flowserve Corp.	38,775	42,643	3.5%
194,163	The Middleby Corp.	29,525	27,613	2.3%
1,241,414	Mitsubishi Electric Corp.	24,750	22,232	1.8%
1,074,343	Kubota Corp.	20,860	22,161	1.8%
310,679	Air Canada	12,811	15,071	1.3%
475,249	Univar Solutions Inc.	13,063	14,960	1.2%
		171,267	187,341	15.5%
<b>Information Technology</b>				
271,951	TE Connectivity Ltd.	22,682	33,845	2.8%
155,177	Fidelity National Information Services Inc.	22,010	28,027	2.3%
206,436	EchoStar Corp., Class A	11,333	11,610	1.0%
688,153	Real Matters Inc.	3,989	8,478	0.7%
2,419	Constellation Software Inc.	1,643	3,051	0.3%
195,572	Sogou Inc. ADR	2,296	1,156	0.1%
		63,953	86,167	7.1%

# CYMBRIA CORPORATION

Schedule of Investment Portfolio  
(in '000s except number of shares/units)  
As at December 31, 2019

Number of shares/units	Security	Average cost	Fair value	% of shareholders' equity
<b>Insurance</b>				
954,179	Manulife Financial Corp.	\$ 20,396	\$ 25,152	2.1%
2,423,660	Echelon Financial Holdings Inc.	19,352	14,821	1.2%
312,481	Vienna Insurance Group AG	9,635	11,561	1.0%
432,497	T&D Holdings, Inc.	8,530	7,211	0.6%
		57,913	58,745	4.9%
<b>Materials</b>				
437,673	DuPont de Nemours, Inc.	39,963	36,487	3.0%
35,300	SK Kaken Co., Ltd.	22,357	20,988	1.7%
318,232	Berry Global Group Inc.	17,898	19,625	1.6%
195,586	Crown Holdings Inc.	11,985	18,424	1.5%
1,222,380	Osisko Gold Royalties Ltd.	14,799	15,426	1.3%
		107,002	110,950	9.2%
<b>Private Equity</b>				
	Private pest control company	1,333	1,333	0.1%
		1,333	1,333	0.1%
<b>Real Estate</b>				
275,853	RMR Group Inc.	14,457	16,349	1.4%
259,277	Seritage Growth Properties, Class A	12,978	13,494	1.1%
364,083	Grand City Properties S.A.	9,479	11,338	0.9%
548,384	Realty Holdings Corp.	23,208	6,893	0.6%
		60,122	48,074	4.0%
<b>Telecommunication Services</b>				
5,045,682	Bharti Infratel Ltd.	29,948	23,178	1.9%
		29,948	23,178	1.9%
	<b>Total Equities</b>	\$ 854,354	\$ 1,152,287	95.4%
<b>Face Value (\$'000)</b>	<b>Fixed Income</b>			
6,000	Pulse Seismic, Private Loan 10% due 2023/12/31	6,000	6,000	0.5%
	<b>Total Fixed Income</b>	\$ 6,000	\$ 6,000	0.5%
	Foreign exchange forward contracts (Note 13)		2,182	0.2%
	Options (Note 14)	2,140	1,699	0.1%
	Adjustment for transaction costs	(568)		
	<b>Total financial assets and liabilities at fair value through profit or loss</b>	\$ 861,926	\$ 1,162,168	96.2%

**1. The Corporation:**

Cymbria Corporation (“Cymbria”) is an investment company incorporated on September 4, 2008, under the laws of the Province of Ontario. It commenced operations and was listed on the Toronto Stock Exchange on November 4, 2008. EdgePoint Investment Group Inc. (the “Manager”) provides senior management to Cymbria and is also its Investment Advisor.

The registered office of Cymbria is located at 150 Bloor St. W., Suite 500, Toronto, Ontario, M5S 2X9, Canada.

The investment objective of Cymbria is to provide long-term capital appreciation through a concentrated portfolio of global companies and an investment in EdgePoint Wealth Management Inc. (“EdgePoint”), which offers mutual funds, institutional and other investments through financial advisors. The portfolio management team looks for global companies that it believes have strong competitive positions, long-term growth prospects and are run by competent management teams. The portfolio management team endeavours to acquire ownership stakes in these companies at prices below its assessment of each company’s true value.

**2. Basis of preparation:****(a) Statement of compliance:**

The financial statements of Cymbria have been prepared in compliance with International Financial Reporting Standards (“IFRS”).

The financial statements were authorized for issue by the Board of Directors on March 12, 2020.

**(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:**

These financial statements are presented in Canadian dollars, which is Cymbria’s functional currency.

**3. Significant accounting policies:**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Cymbria’s accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring and publishing its adjusted net asset value.

**(a) Financial instruments:**

Financial instruments include financial assets and liabilities such as debt and equity securities, derivatives, cash and other receivables and payables. Cymbria classifies and measures financial instruments in accordance with IFRS 9, Financial Instruments. Upon initial recognition, financial assets and financial liabilities are classified as fair value through profit or loss (“FVTPL”), fair value through other comprehensive income or

amortized cost based on the Manager’s assessment of the business model within which the financial asset is managed and the financial asset’s contractual cash flow characteristics.

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. Cymbria 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. Cymbria’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.

The fair value of financial assets and liabilities that are not traded in an active market, including 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.

The investment in EdgePoint, for which no published market exists, is estimated primarily using a discounted cash flow method, unless such securities have been exchanged in an arm’s length transaction that approximates a trade effected in a published market. The Manager engages a third-party valuator to assist in the valuation of EdgePoint.

Upon initial recognition, financial instruments classified as FVTPL are initially recognized on the trade date at fair value. Other financial assets and other financial liabilities are recognized on the date on which they are originated at fair value. All financial assets and liabilities are recognized in the *Statements of Financial Position* when Cymbria becomes a party to the contractual requirements of the instrument. Financial instruments are derecognized when the right to receive the cash flows from the instrument has expired or Cymbria has transferred substantially all risk and rewards of ownership.

Financial instruments classified as FVTPL at each reporting period are subsequently measured at fair value with changes in fair value recognized in the *Statements of Comprehensive Income* in the period in

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

which they occur. The cost of investments is based on the weighted average cost of investments and excludes commissions and other portfolio transaction costs, which are separately reported in the *Statements of Comprehensive Income*. Realized gains and losses on disposition, including foreign exchange gains or losses on such investments, are determined based on the cost of investments. Gains and losses arising from changes in the fair value of the investments are included in the *Statements of Comprehensive Income* for the period in which they arise. Cymbria's investments and derivative financial assets and liabilities are classified as FVTPL.

Financial assets at amortized cost are recognized initially on the date on which they are originated at fair value plus any directly attributable transaction costs. Subsequent measurement of financial assets at amortized cost is at amortized cost using the effective interest method, less any impairment losses. Cymbria classifies cash and cash equivalents, receivable for investments sold and dividends receivable as financial assets at amortized cost.

Other financial liabilities at amortized cost are initially measured on the date on which they are originated at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Cymbria's financial liabilities at amortized cost are comprised of payables for investments purchased, income taxes payable and accrued liabilities. Due to the short-term nature of these financial liabilities, their carrying values approximate fair values. Cymbria derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Transaction costs included in the initial carrying amount of financial instruments at FVTPL are expensed as incurred.

Financial assets and financial liabilities are offset and the net amount presented in the *Statements of Financial Position* only when Cymbria 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.

**(b) Shareholders' equity:**

Cymbria classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Cymbria's common shares, Class A shares, and Class J shares do not contain a redemption feature, are therefore not puttable, and are classified as equity under IAS 32, Financial Instruments.

**(c) Foreign currency:**

Cymbria's functional and presentation currency is the Canadian dollar. Foreign-denominated investments and other foreign-denominated assets and liabilities are translated into Canadian dollars 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 exchange gains and losses relating to cash and other financial assets and liabilities are presented as 'Foreign exchange gain (loss) on cash and other net assets' and those relating to derivatives are presented within 'Net realized gain (loss) on foreign exchange forward contracts' and 'Change in unrealized appreciation (depreciation) on foreign exchange forward contracts' in the *Statements of Comprehensive Income*.

**(d) Income recognition:**

Interest income for distribution purposes from investments in fixed income and short-term investments represents the coupon interest received by Cymbria accounted for on an accrual basis. Cymbria does not use the effective interest method to amortize premiums paid or discounts received on the purchase of fixed income securities. 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. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

**(e) Deferred share unit plan:**

On October 28, 2009, Cymbria approved a Deferred Share Unit ("DSU") plan for its directors. The plan is described in Note 7. DSUs granted to eligible directors are considered compensation costs in respect of past performance and are recognized in operating expenses. Compensation costs are measured based on the fair market value, as defined in the plan, of Cymbria's Class A shares on the date DSUs are granted. DSUs earn additional DSUs related to dividends that would otherwise have been paid if Class A shares had been issued on the grant date. DSUs are accounted for as a financial liability with changes in their fair value recognized in operating expenses.

**(f) Income taxes:**

Income taxes expense comprises current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the

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

laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Cymbria currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the *Statements of Comprehensive Income*.

(g) Net income, per share:

Net income, per share in the *Statements of Comprehensive Income* represents the net income for each class for the period divided by the average shares outstanding for each class for the period.

(h) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended December 31, 2019, and have not been applied in preparing these financial statements. None of these will have a significant effect on the financial statements of Cymbria.

**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. 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.

The following discusses the most significant accounting judgments that the Manager has made in preparing the financial statements:

*i. Fair value measurement of derivatives and securities not quoted in an active market*

Cymbria holds financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgments and estimates Cymbria has made in preparing financial statements. See Note 11 for more information on the fair value measurement of Cymbria's financial statements.

*ii. Deferred tax assets*

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income, together with future tax planning strategies.

**5. Share capital:**

Cymbria has authorized an unlimited number of Class A non-voting, non-redeemable shares, an unlimited number of Class J non-voting, non-redeemable shares and an unlimited number of common shares. Share capital consists of the following:

December 31, 2019	Number of shares		Amount ('000s)
Common shares outstanding, December 31, 2019	100		—*
Class A shares issued:			
Shares outstanding, January 1, 2019	15,438,357	\$	147,219
Class A shares issued in exchange for Class J shares	255,644		2,399
Contributed Surplus			(84)
Class A shares outstanding, December 31, 2019	15,694,001	\$	149,534
Class J shares issued:			
Shares outstanding, January 1, 2019	7,281,482	\$	72,815
Class J shares exchanged for Class A shares	(231,500)		(2,315)
Class J shares outstanding, December 31, 2019	7,049,982	\$	70,500
<b>Total</b>		\$	<b>220,034</b>

\*Amount of common shares outstanding is \$100.

**5. Share capital (continued):**

December 31, 2018	Number of shares	Amount ('000s)
Common shares outstanding, December 31, 2018	100	—*
Class A shares issued:		
Shares outstanding, January 1, 2018	14,474,051	\$ 138,470
Class A shares issued in exchange for Class J shares	964,306	9,049
Contributed surplus		(300)
Class A shares outstanding, December 31, 2018	15,438,357	\$ 147,219
Class J shares issued:		
Shares outstanding, January 1, 2018	8,156,427	\$ 81,564
Class J shares exchanged for Class A shares	(874,945)	(8,749)
Class J shares outstanding, December 31, 2018	7,281,482	\$ 72,815
<b>Total</b>		<b>\$ 220,034</b>

\*Amount of common shares outstanding is \$100.

**6. Retained earnings:**

The changes in retained earnings for the years ended December 31, 2019 and 2018 are as follows:

	December 31, 2019 ('000s)	December 31, 2018 ('000s)
Opening retained earnings	\$ 817,243	\$ 795,499
Net income	170,459	21,744
Closing retained earnings	\$ 987,702	\$ 817,243

**7. Deferred share unit plan:**

In 2009, Cymbria implemented a Deferred Share Unit (“DSU”) plan that gives directors the option to receive all of their Cymbria-related compensation in the form of DSUs. The number of DSUs awarded is based on the fair market value, as defined by the plan, of Class A shares on the award date. DSUs earn additional DSUs related to dividends that would otherwise have been paid if Class A shares had been issued on the grant date. The number of DSUs issued in regard to dividends is based on the fair market value of Class A shares, as defined in the plan, on the date dividends are paid. Upon redemption of DSUs, participants can elect to receive either a cash payment equal to the fair market value, as defined in the plan, of DSUs credited to the participant’s account, or the equivalent number of Class A shares purchased in the open market on the participant’s behalf. The plan is considered unfunded and participants’ rights are no greater than those of an unsecured Cymbria creditor.

The following table summarizes DSU activity for the years ended December 31, 2019 and 2018:

December 31, 2019	Units	Amount ('000s)
Opening Deferred Share Units, January 1, 2019	16,379	\$ 940
Granted during 2019 (Fair value on grant date)	1,844	103
Cumulative fair value adjustments during the year		(25)
<b>Balance, December 31, 2019</b>	<b>18,223</b>	<b>\$ 1,018</b>
December 31, 2018	Units	Amount ('000s)
Opening Deferred Share Units, January 1, 2018	14,609	\$ 756
Granted during 2018 (Fair value on grant date)	1,770	103
Cumulative fair value adjustments during the year		81
<b>Balance, December 31, 2018</b>	<b>16,379</b>	<b>\$ 940</b>

A maximum of 1,000,000 DSUs may be awarded under the plan, with the maximum value of DSUs awarded to participants within any one-year period not to exceed \$100,000 per participant.

**8. Related party transactions:**

i. Management fees:

The Manager charges a monthly management fee at an annual rate of 1% of the daily average net asset value of Class A shares, excluding EdgePoint’s value. During the year ended December 31, 2019, the effective management fee charged on Class A shares was approximately 0.79% per annum.

The Manager charges Class J shareholders a monthly management fee at an annual rate of 0.5% of the daily average net asset value of Class J shares, excluding EdgePoint’s value. During the year ended December 31, 2019, the effective management fee charged on Class J shares was approximately 0.40% per annum.

The total management fee for the year ended December 31, 2019 amounted to \$7.8 million (December 31, 2018: \$7.4 million), with nil in outstanding accrued fees due to the Manager at December 31, 2019 and 2018.

ii. Operating expenses

Cymbria is also responsible for various expenses relating to its operations. These expenses may include, but are not limited to: taxes (including income, capital and harmonized sales taxes), accounting, legal and audit fees,

**8. Related party transactions (continued):**

Board of Directors' fees and expenses, custodial fees, portfolio transaction costs, registrar and transfer agency fees, regulatory costs, shareholder reporting, investment advisor expenses incurred in connection with its duties as Investment Advisor and all administration expenses incurred by the Manager for its duties as Manager, excluding any salaries to the Manager's principal shareholders, and all general operating expenses that could include allocated salaries, overhead and other costs directly related to Cymbria's operations and incurred by the Manager. For the year ended December 31, 2019, allocated expenses totaled \$0.2 million (December 31, 2018: \$0.3 million). Except for interest, bank charges, withholding tax, and transaction costs paid or payable directly by Cymbria, the Manager incurs such expenses on Cymbria's behalf and is then reimbursed by Cymbria for such expenses. Cymbria's common operating expenses are allocated to classes based on the average daily net asset value of each class.

**9. Credit facility:**

On September 22, 2017, Cymbria entered into a credit agreement with a Canadian chartered bank (the "Bank") that can be renewed on an annual basis thereafter. This agreement was renewed during the year ended December 31, 2019 to mature on September 22, 2024. The credit agreement allows Cymbria to borrow up to \$100 million. Interest is charged on the outstanding balance based on whether the facility is drawn as bankers acceptance or prime loan. For a bankers acceptance loan, interest is charged on the outstanding balance at the bankers acceptance rate plus 80 basis points. For a prime loan, interest is charged on the outstanding balance at the Bank's prime rate. In addition, Cymbria will pay a standby fee on the unused portion of the credit facility equal to 34 basis points if the facility is less than 25% drawn and 26 basis points otherwise. When drawn upon, the credit facility will be secured by a selection of eligible securities in Cymbria's investment portfolio. As at December 31, 2019, the outstanding balance of the credit facility was \$6.0 million (December 31, 2018: nil). For the year ended December 31, 2019, Cymbria accrued \$0.5 million in interest and standby fees on the credit facility (December 31, 2018: \$0.3 million), which have been subsequently paid. As at the date of this report, Cymbria has complied with all covenants, conditions or other requirements of the credit agreement.

**10. Income taxes:**

Cymbria, as a public corporation, is subject to income taxes on its net investment income and net realized gain on investments at rates of approximately 26.50% and 13.25%, respectively. Taxable dividends from taxable Canadian corporations, as defined by the Income Tax Act (Canada), are excluded from taxable income. The effective income tax rates for deferred income taxes are approximately 26.50% on investment income and 13.25% on net realized gains.

At the end of the most recent taxation year December 31, 2019, Cymbria had capital and non-capital losses for tax purposes of nil (December 31, 2018: nil).

The total provision for income taxes in the *Statements of Comprehensive Income* is at a rate less than the combined federal and provincial statutory rate for the following reasons:

	December 31, 2019 (('000s))	December 31, 2018 (('000s))
Profit for the year before taxes \$	190,618	\$ 21,216
Tax at the combined statutory rate: 26.50% (2018: 26.50%)	\$ 50,514	\$ 5,623
Increase (decrease) in provision due to:		
Capital gains taxed at 50% Non-taxable Canadian dividends	\$ (20,624)	\$ (923)
Foreign withholding taxes	(8,479)	(4,087)
Other	(1,223)	(1,160)
	(29)	19
<b>Income taxes</b>	<b>\$ 20,159</b>	<b>\$ (528)</b>

The components of Cymbria's deferred income tax liability are as follows:

	December 31, 2019 (('000s))	December 31, 2018 (('000s))
Deferred share units	\$ 270	\$ 249
Net unrealized appreciation of investments	(39,799)	(28,052)
Deferred income tax liability	\$ (39,529)	\$ (27,803)

A loss realized by Cymbria on a disposition of capital property will be a suspended loss when Cymbria acquires a substituted property identical or the same as the property sold within 30 days before and 30 days after the sale, and Cymbria owns the substituted property 30 days after the original disposition. If a loss is suspended, Cymbria cannot deduct the loss from its capital gains until the substituted property is sold and is not reacquired within 30 days before and after the sale.

As of the most recent taxation year of December 31, 2019, Cymbria had suspended losses of \$1,130,744 (December 31, 2018: \$34,572).

**11. Fair value measurement:**

Cymbria's investments and derivative financial instruments are carried at fair value. In the opinion of the Manager, the fair values of financial instruments, other than investments and derivative financial instruments, approximate their carrying values given their short-term nature.

IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy are as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that Cymbria can access at the measurement date;

**11. Fair value measurement (continued):**

- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., as derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If inputs of different levels are used to measure an asset's or liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

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

The following table categorizes 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 included. The amounts are based on the values recognized in the *Statement of Financial Position*.

All fair value measurements below are recurring.

December 31, 2019 ('000s)	Level 1	Level 2	Level 3	Total
Equities	\$ 896,523	\$ –	\$ 255,764	\$1,152,287
Fixed income	–	–	6,000	6,000
Options	–	1,699	–	1,699
Foreign exchange forward contracts	–	2,241	–	2,241
Foreign exchange forward contracts	–	(59)	–	(59)
<b>Total</b>	<b>\$ 896,523</b>	<b>\$ 3,881</b>	<b>\$ 261,764</b>	<b>\$1,162,168</b>

December 31, 2018 ('000s)	Level 1	Level 2	Level 3	Total
Equities	\$ 827,158	\$ –	\$ 224,121	\$1,051,279
Options	–	631	–	631
Foreign exchange forward contracts	–	(3,769)	–	(3,769)
<b>Total</b>	<b>\$ 827,158</b>	<b>\$ (3,138)</b>	<b>\$ 224,121</b>	<b>\$1,048,141</b>

For the year ended December 31, 2019, the net change in value for financial instruments classified as FVTPL is a \$6.7 million gain (December 31, 2018: \$206.8 million gain).

The following tables reconcile Cymbria's Level 3 fair value measurements for the years ended December 31, 2019 and December 31, 2018.

December 31, 2019 ('000s)	Equities	Fixed Income
Balance at beginning of period	\$ 224,121	\$ –
Investment purchases during the period	1,333	6,000
Change in unrealized appreciation (depreciation) in value of investments	30,310	–
<b>Balance at end of period</b>	<b>\$ 255,764</b>	<b>\$ 6,000</b>

December 31, 2018 ('000s)	Equities
Balance at beginning of year	\$ 185,941
Change in unrealized appreciation (depreciation) in value of investments	38,180
<b>Balance at end of year</b>	<b>\$ 224,121</b>

During the years ended December 31, 2019 and 2018, there were no transfers between levels.

(a) Equities

Cymbria's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable. When certain of Cymbria's equities do not trade frequently, current observable prices may not be available. In such cases, fair value is determined using observable market data and the fair value is classified as Level 2, unless the determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3.

As at December 31, 2019, Cymbria had two Level 3 equity investments, in EdgePoint and a private pest control company.

EdgePoint is a private company not traded on any public exchange and is considered a Level 3 asset because there is no market in which a share price can be readily observed. The Manager engages a third-party valuator to assist in the valuation of EdgePoint. EdgePoint's value is determined using the Discounted Cash Flow ("DCF") method. Under the DCF method, EdgePoint's fair value is estimated using the net present value of expected future cash flows. The cash flows include significant assumptions over market growth, net sales, expenses including income taxes and the estimated market value of portfolio management services received from a related party, discount rates and an exit or terminal value. The projected cash flows, together with the terminal value of the business at the end of the forecast period, are discounted to the valuation date using an appropriate rate. This value is corroborated with a number of other recognized valuation methodologies for comparable businesses, such as price-to-AUM and price-to-earnings ratios. These data points are then compared to analyst reports and information available for publicly traded wealth management companies to determine a range of values for the business, which is then discounted due to the private nature of the shares and less than a controlling interest being owned. The Manager determines the most appropriate valuation methodologies to use, which are subject to change. On a quarterly basis or as frequently as necessary, the Manager reviews the key assumptions, including EdgePoint's results and business prospects, for significant changes since the most recent valuation. If there are material changes, the Manager may engage the third-party valuator to assist in the re-valuation of EdgePoint and the amount recorded in the financial statements will be updated.

The following table sets out information about significant unobservable inputs used at December 31, 2019 in measuring EdgePoint, which is categorized as Level 3 in the fair value hierarchy.

**11. Fair value measurement (continued):**

EdgePoint Wealth Management Inc.

Fair value at December 31, 2019: \$254.4 million

Unobservable Input	Input used	Range of reasonable alternatives	Sensitivity to changes in significant unobservable inputs
Annual market growth	5%	4%–6%	(\$9.9M)–\$11.1M
Redemption rate	13.5%	10%–18%	\$41.0M–(\$37.7M)
Discount rate	11.5%	10%–13%	\$34.8M–(\$25.6M)
Portfolio management cost	0.15%	0.10%–0.20%	\$22.4M–(\$21.8M)

Fair Value at December 31, 2018: \$224.1 million

Unobservable Input	Input used	Range of reasonable alternatives	Sensitivity to changes in significant unobservable inputs
Annual market growth	5%	4%–6%	(\$9.4M)–\$10.0M
Redemption rate	12.5%	9%–14%	\$35.0M–(\$14.9M)
Discount rate	12.5%	10.5%–14%	\$42.9M–(\$22.9M)
Portfolio management cost	0.15%	0.10%–0.20%	\$20.6M–(\$20.5M)

Significant unobservable inputs are developed as follows:

- (i) Annual market growth: represents the future weighted average investment returns of the funds managed by EdgePoint. EdgePoint’s management fee revenue is calculated as a percentage of assets under management (“AUM”), therefore higher investment returns of the funds will increase EdgePoint’s expected annual cash flow. The range of 4%–6% was developed based on a weighted average of the index returns of the funds’ benchmarks over a range of prior periods.
- (ii) Redemption rate: represents the weighted average of units redeemed by unitholders of the mutual funds managed by EdgePoint as a percentage of AUM. A higher redemption rate will decrease EdgePoint’s AUM and will therefore lower the annual cash flow. The range of 10%–18% is based on a combination of EdgePoint’s historical redemption rate and the long-term redemption rate of the industry.
- (iii) Discount rate: is the annual percentage used to determine the present value of EdgePoint’s future cash flows. The discount rate factors in not only the time value of money, but also the risk or uncertainty of those future cash flows. A higher discount rate would indicate a greater uncertainty of future cash

flows and therefore determine a lower net present value for EdgePoint. The range of 10%–13% was determined based on a combination of EdgePoint’s assumed weighted-average cost of capital, the risk-free rate, market risk factors and other systematic and unsystematic risk factors.

- (iv) Portfolio management cost: represents the fees paid to the Manager by EdgePoint for providing investment advisory services. Due to the Manager and EdgePoint being related parties, fees negotiated between the two parties are considered substantially below market value. For the purposes of valuing EdgePoint, it is assumed that a reasonable market value for services provided is paid to the Manager. A higher rate would increase the fees paid to the Manager and therefore decrease the annual cash flow. The input is presented as a percentage of AUM. The range of 0.10%–0.20% was determined based on sub-advisory fees of comparable investment managers.

Although the Manager believes that its estimates of fair value for EdgePoint are appropriate, the use of different assumptions could lead to different measurements of fair value. For the fair value measurement of EdgePoint, changing a combination of the significant assumptions noted above to reasonably possible alternative assumptions would increase or decrease the value of EdgePoint. Taking a pessimistic view by changing the annual market rate to 4%, redemption rate to 18%, discount rate to 13%, and portfolio management cost to 0.20% would result in a decrease in the value of EdgePoint by \$80.6 million. Conversely, taking an optimistic view by changing the annual market rate to 6%, redemption rate to 10%, discount rate to 10%, and portfolio management cost to 0.10% would result in an increase in the value of EdgePoint by \$132.4 million.

Cymbria’s other Level 3 asset is a private pest control company that is not traded on any public exchange and is considered a Level 3 asset because there is no market in which its value can be readily observed. The fair value of the company was determined using the cost of acquiring securities of the company during the year ended December 31, 2019. The use of a different valuation methodology would not lead to a significantly different fair value.

(b) Fixed income

Fixed income is comprised of corporate bonds that are valued using models with inputs including interest rate curves, credit spreads and volatilities. The inputs relating to Cymbria’s fixed income securities are not observable and therefore have been classified as Level 3.

As at December 31, 2019, Cymbria had one Level 3 fixed income investment in Pulse Seismic. The value of the bond was determined using a model and changing the inputs used in valuing it would not significantly impact its value to Cymbria.

(c) Derivative assets and liabilities

Derivative assets and liabilities consists of foreign exchange forward contracts and equity call option contracts. Foreign exchange forward contracts are valued primarily on the contract notional amount, the difference between the contract rate and the forward market rate for the same currency and interest rates. Contracts for which counterparty credit spreads are observable and reliable, or for which the credit related inputs are determined not to be significant to fair value, are classified as Level 2. Equity options are valued primarily on the number of contracts, the difference between the strike price and the forward market rate for the underlying equity/index, interest rate, dividends and volatility of the underlying equity/index. Counterparty credit risk is managed through the use of collateral and a Credit Support Annex, when available.

## 12. Financial instrument risk:

In the normal course of business, Cymbria is exposed to a variety of financial risks: market risk (comprising market price risk, foreign currency risk and interest rate risk), counterparty credit risk and liquidity risk. The value of investments in Cymbria's portfolio can fluctuate daily as a result of changes in interest rates, market and economic conditions, and factors specific to individual securities within Cymbria. The level of risk depends on Cymbria's investment objectives and the type of securities in which it invests.

### **Risk management**

Cymbria's overall risk management program seeks to maximize the returns derived for the level of risk to which Cymbria is exposed and seeks to minimize potential adverse effects on Cymbria's financial performance. All investments result in the risk of loss of capital. The team takes a conservative approach to risk management by applying in-depth, thorough research to each investment idea in order to understand the risks of the individual business and weighs this against its return potential.

Risk is further managed by investing in a diversified portfolio of companies. The team believes that investing in businesses with competitive advantages is a more effective approach to diversification than focusing on traditional sector allocations. The team takes a common-sense approach to risk by assessing how much money can be lost and the probability of losing it. While this approach may seem overly simplistic, it provides vital clarity about the true investment risks.

The Manager employs a governance structure that oversees Cymbria's investment activities and monitors compliance with Cymbria's stated investment strategy, internal guidelines and securities regulations. The Governance and Oversight Committee of the Manager conducts quarterly reviews to monitor portfolio activity for compliance with applicable rules.

### **Risk factors**

(a) Market risk:

Cymbria's investments are subject to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The following includes sensitivity analyses that show how shareholders' equity would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

(i) Market price risk

Market price risk arises primarily from uncertainties about the future market prices of instruments held. Market price fluctuations may be caused by factors specific to an individual investment, or factors affecting all securities traded in a market or industry sector. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value. Cymbria's most significant exposure to market price risk arises from its investment in equity securities.

If equity prices for these securities had increased or decreased on their respective stock exchanges by 5% as at December 31, 2019, with all other variables held constant, Cymbria's shareholders' equity would have increased or decreased, respectively, by approximately \$57.6 million or 4.8% of total shareholders' equity or 33.8% of net income (December 31, 2018: \$52.6 million or 5.1% of total shareholders' equity or 241.8% of net income). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

(ii) Foreign currency risk

Foreign currency risk arises from financial instruments denominated in a currency other than the Canadian dollar, which is Cymbria's functional currency. Cymbria is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. When the Investment Advisor deems it appropriate, Cymbria will enter into foreign exchange forward contracts to reduce its foreign currency exposure.

The following tables indicate the currencies (excluding the Canadian dollar) to which Cymbria's financial instruments had significant exposure. Period-end figures are in Canadian dollars and include the notional amount of forward exchange contracts, if any:

**12. Financial instrument risk (continued):**

December 31, 2019  
(\$'000s)

Currency	Investments	Cash and cash equivalents	Foreign exchange forward contracts	Total
U.S. dollar	483,735	(60)	(64,398)	419,277
Japanese Yen	181,322	–	(17,932)	163,390
Euro	31,387	–	–	31,387
Swedish Krona	27,530	33	–	27,563
Indian Rupee	23,178	–	–	23,178
Swiss franc	19,010	–	–	19,010
Danish Krone	11,205	–	–	11,205

December 31, 2018  
(\$'000s)

Currency	Investments	Cash and cash equivalents	Foreign exchange forward contracts	Total
U.S. dollar	418,105	1,686	(69,557)	350,234
Japanese Yen	151,872	–	(9,785)	142,087
Indian Rupee	25,424	–	–	25,424
Euro	21,800	(116)	–	21,684
Danish Krone	19,632	–	–	19,632
Swedish Krona	19,427	252	–	19,679
Swiss franc	16,299	–	–	16,299
China Renminbi	9,484	42	–	9,526
British pound	6,853	–	–	6,853

As at December 31, 2019, if the Canadian dollar had strengthened or weakened by 5% relative to all foreign currencies with all other variables held constant, Cymbria's shareholders' equity would have decreased or increased, respectively, by approximately \$30.6 million or 2.9% of total shareholders' equity or 20.4% of net income (December 31, 2018: \$30.6 million or 2.9% of total shareholders' equity or 140.6% of net income).

In practice, actual results may differ from this sensitivity analysis and the difference could be material.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value, or future cash flows of financial instruments, will fluctuate as a result of changes in market interest rates. The majority of Cymbria's financial assets are equity shares, which are not interest bearing. Cymbria has a credit facility in place but the amount that has been drawn on is not considered significant enough to pose a significant interest rate risk to Cymbria. Aside from the credit facility, Cymbria's financial liabilities are primarily short-term in nature and generally not interest bearing and its exposure to interest rate risk is considered insignificant.

(b) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to honour an obligation or commitment that it has entered into with Cymbria.

Cymbria's main exposure to credit risk is its trading of listed securities. It minimizes the concentration of credit risk by trading with a large number of brokers and counterparties on recognized and reputable exchanges. The risk of default is considered minimal as all transactions are settled and paid for upon delivery using approved brokers.

Cymbria may enter into foreign exchange contracts to buy and sell currencies for the purpose of settling foreign securities transactions. These are short-term spot settlements carried out with counterparties with a credit rating of at least "A." The exposure to credit risk on these contracts is considered minimal as there are few contracts outstanding at any one time and the transactions are settled and paid for upon delivery.

(c) Liquidity risk:

Liquidity risk is the risk that Cymbria will encounter difficulty in meeting obligations associated with financial liabilities.

Aside from financial liabilities that arise from its normal investing activities, Cymbria has no other significant financial liabilities. As Cymbria's shares are non-redeemable, they do not represent a liquidity risk.

Cymbria may invest in derivatives, fixed income securities and unlisted equity investments that are not traded in an active market. As a result, Cymbria may not be able to quickly liquidate its investments in these instruments at amounts, which approximate their fair values, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In accordance with Cymbria's policy, the Manager monitors Cymbria's liquidity position on a daily basis.

Cymbria may invest in illiquid assets, but maintains the majority of its assets in liquid investments traded in an active market that can be readily sold. As at December 31, 2019, illiquid securities represent approximately 21.7% of Cymbria's shareholders' equity (December 31, 2018: 21.0%).

Cymbria also has the ability to borrow up to 25% of its shareholders' equity to invest in securities for the purpose of enhancing returns. As at December 31, 2019, this borrowing represented 0.5% of shareholders' equity (December 31, 2018: nil).

The tables below categorizes Cymbria's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amount in the tables are the contractual undiscounted cash flows.

# CYMBRIA CORPORATION

Notes to Financial Statements (Continued)  
As at and for the years ended December 31, 2019 and 2018

December 31, 2019	On demand (\$'000s)	< 3 months (\$'000s)	> 3 months (\$'000s)	Total (\$'000s)
Payable for investments purchased	1,009	–	–	1,009
Credit facility	–	–	6,000	6,000
Foreign exchange forward contracts	–	59	–	59
Deferred share unit plan liability	–	–	1,018	1,018
Deferred income tax liability	–	–	39,529	39,529

December 31, 2018	On demand (\$'000s)	< 3 months (\$'000s)	> 3 months (\$'000s)	Total (\$'000s)
Payable for investments purchased	427	–	–	427
Accrued liabilities	–	75	–	75
Foreign exchange forward contracts	–	3,769	–	3,769
Income taxes payable	–	2,590	–	2,590
Deferred share unit plan liability	–	–	940	940
Deferred income tax liability	–	–	27,803	27,803

## 13. Foreign exchange forward contracts:

December 31, 2019				
Settlement date	Currency to be delivered ('000s)	Currency to be received ('000s)	Contract price	Fair value ('000s)
January 6, 2020	1,500,000 JPY	18,799 CAD	0.0125	\$ 848
January 14, 2020	1,600 USD	2,108 CAD	1.3176	31
February 18, 2020	11,400 USD	15,166 CAD	1.3304	366
March 2, 2020	500 USD	662 CAD	1.3244	13
May 19, 2020	3,400 USD	4,505 CAD	1.3251	91
June 1, 2020	1,000 USD	1,326 CAD	1.3256	27
July 31, 2020	8,500 USD	11,251 CAD	1.3236	215
August 13, 2020	5,000 USD	6,639 CAD	1.3277	147
September 21, 2020	23,000 USD	30,367 CAD	1.3203	503
				2,241
May 19, 2020	1,698 CAD	1,300 USD	0.7655	(11)
July 31, 2020	4,592 CAD	3,500 USD	0.7623	(48)
				(59)
Total number of contracts:	11		Net fair value	\$ 2,182

## 14. Options:

December 31, 2019					
Call options	Expiry date	Strike price	Number of contracts	Average cost ('000s)	Fair value ('000s)
EURO STOXX 50 Index	June 16, 2023	3,816	3,386,136	\$ 1,070	\$ 1,455
EURO STOXX Banks Index	February 17, 2023	142	941,864	356	79
EURO STOXX Banks Index	March 17, 2023	142	941,864	358	81
EURO STOXX Banks Index	April 21, 2023	142	941,864	356	84
				\$ 2,140	\$ 1,699

## 15. Offsetting financial assets and financial liabilities:

In the normal course of business, Cymbria may enter into various netting arrangements or other similar agreements that do not meet the criteria for offsetting in the *Statements of Financial Position* but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. Cymbria has not offset any financial assets and financial liabilities in the *Statements of Financial Position*. The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting or similar agreement that covers similar financial instruments.

The ISDA and similar master netting agreements do not meet the criteria for offsetting in the *Statements of Financial Position*. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of Cymbria or the counterparties. In addition, Cymbria and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The collateral provided in respect of the below transactions is subject to the standard industry terms of ISDA's *Credit Support Annex*. This means that cash given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions on the counterparty's failure to post collateral. Cash collateral pledged by Cymbria is included in Cash and cash equivalents on the *Statements of Financial Position*.

December 31, 2019 (\$'000s)					
Type of financial instrument	Gross amounts of recognized financial assets and liabilities	Net amounts presented in the statement of financial position	Related amounts not offset in the statement of financial position	Cash collateral pledged	Net Amount
Foreign exchange forward contracts – assets	2,241	2,241	(59)	1,160	2,182
Foreign exchange forward contracts – liabilities	(59)	(59)	59	–	–

December 31, 2018 (\$'000s)					
Type of financial instrument	Gross amounts of recognized financial assets and liabilities	Net amounts presented in the statement of financial position	Related amounts not offset in the statement of financial position	Cash collateral pledged	Net Amount
Foreign exchange forward contracts – assets	–	–	–	38	–
Foreign exchange forward contracts – liabilities	(3,769)	(3,769)	–	2,312	(1,457)

## 16. Interests in subsidiaries, associates, and unconsolidated structured entities:

Cymbria may invest in a subsidiary, associate or unconsolidated structured entity as part of its investment strategy.

In determining whether Cymbria has control or significant influence over an investment, Cymbria assesses voting rights, the exposure to variable returns, and its ability to use the voting

**16. Interests in subsidiaries, associates, and unconsolidated structured entities: (continued):**

rights to affect the amount of the returns. In instances where Cymbria has control over an investment, Cymbria qualifies as an investment entity under IFRS 10 – Consolidated Financial statements, and therefore accounts for investments it controls at fair value through profit and loss. Cymbria’s primary purpose is defined by its investment objectives and uses the investment strategies available to it as defined in Cymbria’s prospectus to meet those objectives. Cymbria also measures and evaluates the performance of any investment on a fair value basis. Investments over which Cymbria has control or significant influence are categorized as subsidiaries and associates, respectively.

Cymbria’s investments are susceptible to market price risk arising from uncertainty about future values of those investments. The maximum exposure to loss from interests in investments is equal to the total fair value of the investment at any given point in time. The fair value of investments is included in the *Statements of Financial Position*.

As at December 31, 2019 and 2018, Cymbria had material investments in the following subsidiaries, associates and unconsolidated structured entities:

December 31, 2019	Place of Business	Type	Ownership %
Echelon Financial Holdings Inc.	Canada	Associate	20.2%
EdgePoint Wealth Management Inc.	Canada	Associate	20.7%

December 31, 2018	Place of Business	Type	Ownership %
Echelon Financial Holdings Inc.	Canada	Associate	20.3%
EdgePoint Wealth Management Inc.	Canada	Associate	20.7%

**17. Commitments and subsequent events:**

In December 2019, Cymbria committed to participate in purchasing a minority interest of a private Canadian company for an estimated range of \$35 to \$70 million, conditioned on regulatory approvals. The transaction is expected to close sometime in 2020.

Subsequent to December 31, 2019, EdgePoint experienced a decline in assets under management as a result of negative market volatility caused by fear over the economic impact of the COVID-19 pandemic. On March 12, 2020, the value of EdgePoint was adjusted to \$219.2 million, representing a decrease of approximately 3.3% of shareholders’ equity.

## **OFFICERS**

**Tye Bousada, CFA**  
*Co-Chief Executive Officer*

**Geoff MacDonald, CFA**  
*Co-Chief Executive Officer*

**Diane Rossi**  
*Corporate Secretary*

**Norman Tang, CPA, CA**  
*Chief Financial Officer*

## **DIRECTORS**

**Ugo Bizzarri, CFA**  
*Director*

**Reena Carter, CA, CPA, CBV, C.Dir**  
*Director and Chair of the Audit Committee*

**Patrick Farmer, CFA**  
*Chairman*

**James MacDonald**  
*Director and member of the Audit Committee*

**Richard Whiting**  
*Director and member of the Audit Committee*

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