

AIP Canadian Enhanced Income Class

Interim Financial Statements
(Unaudited)

June 30, 2018

NOTICE OF NON-REVIEW OF INTERIM FINANCIAL STATEMENTS

These interim financial statements and related notes for the six month period ended June 30, 2018 have been prepared by the management of the Fund. The external auditors of the Fund have not audited or reviewed these interim financial statements.

AIP CANADIAN ENHANCED INCOME CLASS

Statements of Financial Position (unaudited)

as at June 30, 2018 and December 31, 2017

| | 2018 | 2017 |
|---|----------------------|----------------------|
| Assets | | |
| Investments | \$ 4,039,619 | \$ 5,368,989 |
| Cash | 8,320,713 | 7,908,278 |
| Receivable for investment sold | 121,250 | - |
| Subscriptions receivable | - | 75 |
| Interest receivable | 71,087 | 70,623 |
| | 12,552,669 | 13,347,965 |
| Liabilities | | |
| Redemptions payable | - | 4,215 |
| Management fee payable (note 7) | 913 | 1,302 |
| Performance fee payable | 2,498 | - |
| Accrued expenses | 29,149 | 33,565 |
| Distributions payable to shareholders | 1,842 | 1,843 |
| Income taxes payable | 263,520 | 170,000 |
| | 297,922 | 210,925 |
| Net assets attributable to holders of redeemable shares | \$ 12,254,747 | \$ 13,137,040 |
| Net assets attributable to holders of redeemable shares per series: | | |
| Series F | \$ 333,160 | \$ 348,435 |
| Series I | 11,906,811 | 12,682,179 |
| Series I.1 | 14,776 | 106,426 |
| | \$ 12,254,747 | \$ 13,137,040 |
| Net assets attributable to holders of redeemable shares per share: | | |
| Series F | \$ 9.04 | \$ 9.45 |
| Series I | \$ 10.87 | 10.79 |
| Series I.1 | \$ 10.42 | 10.48 |

Approved on behalf of AIP Canadian Enhanced Income Class
by the Board of Directors of AIP Mutual Funds Corporation

"Jay Bala"

Director ("signed")

"Karim Mecklai"

Director ("signed")

AIP CANADIAN ENHANCED INCOME CLASS

Statements of Comprehensive Income (unaudited)

For the six months ended June 30, 2018 and 2017

| | 2018 | 2017 |
|--|-------------------|------------------|
| Income: | | |
| Investment: | | |
| Fees | \$ 754,747 | \$ - |
| Interest for distribution purposes | 240,821 | 269,172 |
| Net realized gain (loss) on sale of investments | 4,595 | (17,954) |
| Net change in unrealized depreciation in value of investments and derivatives | (73,093) | (71,453) |
| Foreign exchange gain on cash | 17,179 | 13,799 |
| | 944,249 | 193,564 |
| Expenses: | | |
| Valuation and administrative fees | 28,267 | 31,907 |
| HST and bank charges | 9,465 | 10,093 |
| Audit fee | 7,889 | 7,203 |
| Custodial fee | 4,266 | 5,480 |
| Independent review committee fees | 3,747 | 1,736 |
| Performance fee | 2,498 | - |
| Management fee (note 7) | 1,941 | 10,903 |
| Transaction costs | 238 | 195 |
| Trailer fees | 205 | 5,042 |
| Legal fees | - | 9,894 |
| Provision for income taxes | 263,520 | 75,567 |
| | 322,036 | 82,453 |
| Increase in net assets attributable to holders of redeemable shares | \$ 622,213 | \$ 35,544 |
| Increase in net assets attributable to holders of redeemable shares per series: | | |
| Series F | \$ 10,511 | \$ 4,313 |
| Series I | 609,943 | 37,524 |
| Series I.1 | 1,759 | (5,659) |
| Series I.2 | - | (634) |
| | \$ 622,213 | \$ 35,544 |
| Increase in net assets attributable to holders of redeemable shares per series per unit (note 8): | | |
| Series F | \$ 0.28 | \$ 0.03 |
| Series I | 0.54 | 0.03 |
| Series I.1 | 0.46 | (0.09) |
| Series I.2 | - | (0.05) |

AIP CANADIAN ENHANCED INCOME CLASS

Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares (unaudited)

For the six months ended June 30, 2018 and 2017

| June 30, 2018 | Series F | Series I | Series I.1 | Series I.2 | Total |
|--|-----------------|-----------------|-------------------|-------------------|---------------|
| Net assets attributable to holders of redeemable shares, beginning of period | \$ 348,435 | \$ 12,682,179 | \$ 106,426 | \$ - | \$ 13,137,040 |
| Increase in net assets attributable to holders of redeemable shares | 10,511 | 609,943 | 1,759 | - | 622,213 |
| Distributions paid or payable to holders of redeemable shares: | | | | | |
| Net investment income | (12,230) | - | - | - | (12,230) |
| Redeemable unit transactions: | | | | | |
| Proceeds from redeemable shares issued | - | 543,900 | - | - | 543,900 |
| Reinvestment of distributions to holders of redeemable shares | 1,172 | 525,151 | 2,837 | - | 529,160 |
| Redemption of redeemable shares | (212,291) | (1,716,690) | (93,409) | - | (2,022,390) |
| Exchange of redeemable shares | 212,521 | (212,521) | - | - | - |
| Distributions | (14,958) | (525,151) | (2,837) | - | (542,946) |
| | (13,556) | (1,385,311) | (93,409) | - | (1,492,276) |
| Net assets attributable to holders of redeemable shares, end of period | \$ 333,160 | \$ 11,906,811 | \$ 14,776 | \$ - | \$ 12,254,747 |
| June 30, 2017 | Series F | Series I | Series I.1 | Series I.2 | Total |
| Net assets attributable to holders of redeemable shares, beginning of period | \$ 2,324,030 | \$ 11,469,009 | \$ 836,067 | \$ - | \$ 14,629,106 |
| Increase in net assets attributable to holders of redeemable shares | 4,313 | 37,524 | (5,659) | (634) | 35,544 |
| Distributions paid or payable to holders of redeemable shares: | | | | | |
| Net investment income | (41,002) | - | - | - | (41,002) |
| Redeemable unit transactions: | | | | | |
| Proceeds from redeemable shares issued | 12,425 | 845,900 | 18,000 | - | 876,325 |
| Reinvestment of distributions to holders of redeemable shares | 40,445 | - | - | - | 40,445 |
| Redemption of redeemable shares | (1,983,013) | (718,229) | (21,358) | - | (2,722,600) |
| Exchange of redeemable shares | 177,055 | - | (309,873) | 132,818 | - |
| | (1,753,088) | 127,671 | (313,231) | 132,818 | (1,805,830) |
| Net assets attributable to holders of redeemable shares, end of period | \$ 534,253 | \$ 11,634,204 | \$ 517,177 | \$ 132,184 | \$ 12,817,818 |

AIP CANADIAN ENHANCED INCOME CLASS

Statements of Cash Flows (unaudited)

For the six months ended June 30, 2018 and 2017

| | 2018 | 2017 |
|--|---------------------|--------------|
| Cash flows provided by (used in) operating activities: | | |
| Increase in net assets attributable to holders of redeemable shares | \$ 622,213 | \$ 35,544 |
| Adjustments for: | | |
| Foreign exchange gain on cash | (17,179) | (13,799) |
| Net realized loss on sale of investments and derivatives | (4,595) | 17,954 |
| Net change in unrealized (appreciation)/depreciation of investments | 73,093 | 71,453 |
| Transaction costs | 205 | 195 |
| Accrued liabilities | 86,997 | 24,149 |
| Proceeds from sale and maturity of investments | 6,120,093 | 5,064,550 |
| Purchase of investments | (4,859,426) | (9,460,908) |
| Interest, dividends receivable and other assets | (121,714) | 125,776 |
| Net cash used in operating activities | 1,899,687 | (4,135,086) |
| Cash flows provided by financing activities: | | |
| Proceeds from redeemable shares issued | 543,900 | 876,325 |
| Redemption of redeemable shares | (2,022,390) | (2,722,600) |
| Distributions paid to holders of redeemable shares, net of reinvested distributions | (26,016) | (557) |
| Net cash used in financing activities | (1,504,506) | (1,846,832) |
| Increase (decrease) in cash | 395,181 | (5,981,918) |
| Foreign exchange gain on cash | 17,179 | 13,799 |
| Cash, beginning of period | 7,908,278 | 9,507,929 |
| Cash, end of period | \$ 8,320,638 | \$ 3,539,810 |
| Supplemental information (included in operating activities): | | |
| Interest received | \$ 1,051,333 | \$ 207,391 |

AIP CANADIAN ENHANCED INCOME CLASS

Schedule of Investment Portfolio (Unaudited)

June 30, 2018

| Shares/ par value | Security | Cost | Fair Value |
|---|---|---------------------|-------------------|
| Fixed income (23.0%) | | | |
| 187,500 | Baytex Energy Corp 6.63%, July 19, 2022 | 183,984 | 183,023 |
| 750,000 | Cameco Corporation 5.67%, September 2, 2019 | 782,775 | 771,300 |
| 187,500 | Crew Energy 6.50%, March 14, 2024 | 183,750 | 174,563 |
| 250,000 | Canadian National Resources 2.60%, December 3, 2019 | 252,135 | 250,333 |
| 250,000 | Canadian National Resources 3.05%, June 19, 2019 | 254,810 | 251,683 |
| 181,498 | Relevium Technologies Inc., June 12, 2019 | 181,498 | 181,498 |
| 500,000 | Sobeys Inc. 3.52%, August 8, 2018 | 510,370 | 500,688 |
| 250,000 | Thomson Reuters Corp 3.37%, May 23, 2019 | 260,260 | 252,443 |
| 250,000 | Transcontinental Inc. 3.90%, May 13, 2019 | 256,388 | 252,038 |
| | Total fixed income | 2,865,970 | 2,817,569 |
| Canadian equities (0.4%) | | | |
| Consumer staples (0.3%): | | | |
| 289,071 | Relevium Technologies Inc. | 43,492 | 39,025 |
| Information Technology (0.1%): | | | |
| 81,045 | Carl Data Solutions Inc. | 17,379 | 10,941 |
| | Total Canadian equities | 60,871 | 49,966 |
| U.S. equities (9.6%) | | | |
| Information Technology (8.8%): | | | |
| 2,156,825 | Solbright Group Inc. | 1,432,565 | 1,077,433 |
| Financials (0.8%): | | | |
| 720 | Capital Guardian Holding, LLC | 96,012 | 94,651 |
| | Total U.S. equities | 1,528,577 | 1,172,084 |
| Total investment portfolio (33.0%) | | 4,455,418 | 4,039,619 |
| Transaction costs | | 238 | - |
| Net investments owned | | <u>\$ 4,455,180</u> | 4,039,619 |
| Cash and T-bill (67.9%) | | | 8,320,713 |
| Other assets less other liabilities (-0.9%) | | | (105,585) |
| Net assets (100.0%) | | \$ | 12,254,747 |

AIP CANADIAN ENHANCED INCOME CLASS

Notes to Financial Statements (Unaudited)

June 30, 2018

AIP Canadian Enhanced Income Class (the "Fund") is a class of shares of AIP Mutual Funds Corporation (the "Corporation"), which was incorporated on January 14, 2016.

These financial statements only present the financial information for the Fund, as its own reporting entity. The Corporation is liable for the expenses and obligation of all classes. It is possible that if a class of shares cannot satisfy its own obligations, such obligations may be satisfied using assets of other classes. The Corporation, however, believes that the risk of cross-class liability is remote and is diligent to minimize such liability.

Laurentian Bank Securities Inc. (the "Custodian") is the custodian for the Fund. AIP Asset Management Inc., the manager and portfolio advisor of the Fund (the "Manager"), is responsible for managing the affairs of the Fund and for the investment portfolio. The Manager is incorporated under the laws of the province of Ontario and is registered with the Ontario Securities Commission as an Investment Fund Manager, Portfolio Manager and an Exempt Market Dealer.

The investment objective of the Fund is to generate superior risk-adjusted investment returns, relative to the fund's benchmark, the FTSE/TMX Canada Universe Bond Index, by investing primarily in Canadian income oriented securities, income trusts, convertible and fixed income or other income producing securities.

The Fund's registered address is 77 King Street West, Toronto, ON M5K 1E7.

The Fund's financial statements were authorized for issue by the Board of Directors on August 21, 2018.

1. Basis of presentation:

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2. Significant accounting policies:

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

(a) Financial instruments:

The Fund recognizes financial instruments at fair value upon initial recognition. Investments have been designated at fair value through profit or loss ("FVTPL"). The Fund's obligation for net assets attributable to holders of redeemable shares is presented

AIP CANADIAN ENHANCED INCOME CLASS

Notes to Financial Statements (Unaudited)

June 30, 2018

at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount paid and received. Due to the short-term nature of these financial assets and liabilities, their carrying values approximate fair values.

The Fund's financial assets and liabilities, except derivatives, are designated at fair value through profit or loss at inception, as those financial assets and liabilities are managed together and their performance evaluated on a fair value basis in accordance with the Fund's investment strategies.

(b) Offsetting of financial assets and liabilities:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(c) Fair value measurement:

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 on the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded 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 the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager will apply a price 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 of change in circumstances that gave rise to the transfer.

Investments held that are not traded in an active market are valued based on the results of valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other methodologies commonly used by market participants and which make the maximum use of observable inputs.

AIP CANADIAN ENHANCED INCOME CLASS

Notes to Financial Statements (Unaudited)

June 30, 2018

2. Significant accounting policies (continued):

(d) Impairment of financial assets:

At each reporting date the Fund assesses whether there is objective evidence that financial assets at amortized cost are impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(e) Revenue recognition

Investment income:

Investment transactions are recorded on its trade date. The interest for distribution purposes shown on the statement of comprehensive income represents the coupon interest received by the fund accounted for on an accrual basis. The Fund amortizes premiums paid or discounts received on the purchase of fixed income securities on a straight line basis. Dividend income is recognized on the ex-dividend date. Realized and unrealized gains and losses from investment transactions are calculated on a weighted average cost basis. Income, realized and unrealized gains/losses are allocated among the series on a pro-rata basis.

(f) Functional and presentation currency and foreign currency translation:

The functional and presentation currency of the Fund is Canadian dollars, which is the currency of the economic environment in which the Fund operates and is the primary currency in which it raises capital.

The fair value of investments and other assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the rate of exchange on the valuation date. Transactions denominated in a foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the date of the transactions. Realized and unrealized foreign currency gains or losses on investments are included in the statement of comprehensive income in 'net realized loss on sale of investments and net change in unrealized appreciation on investments, respectively. Realized and unrealized foreign currency gains or losses on monetary assets and liabilities other than investments denominated in foreign currencies are included in the statement of comprehensive income in foreign exchange gain on cash.

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Notes to Financial Statements (Unaudited)

June 30, 2018

2. Significant accounting policies (continued):

(g) Cash:

Cash is comprised of demand deposits with financial institutions, bank overdraft, and short term debt instruments.

| | |
|-----------------------------|--------------|
| Cash | \$ 6,326,298 |
| Government of Canada T-Bill | 1,994,415 |
| | <hr/> |
| | \$ 8,320,713 |

(h) Multi-series operations:

A net asset value ("NAV") is calculated for each series of shares of the Fund by taking the series' proportionate share of the Fund's common assets less that series' proportionate share of the Fund's common liabilities and deducting from this amount all liabilities that relate solely to a specific series. The NAV per unit for each series is determined by dividing the NAV of each series by the number of shares of that series outstanding on the valuation date.

(i) Transaction costs:

Transaction costs are expensed and disclosed in the statement of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers.

(j) Classification of redeemable shares issued by the Fund:

The Fund's shares are classes in the Corporation. The classes will not participate pro rata in the residual net assets of the corporation and they do not have identical features. Consequently, the Fund's outstanding redeemable shares are classified as financial liabilities in accordance with the requirements of International Accounting Standard ("IAS") 32, Financial Instruments: Presentation.

(k) Income taxes:

The Fund is established as a class of shares of the Corporation. The Corporation will pay sufficient capital gains dividends and ordinary dividends so that, generally, the tax paid by the Corporation with respect to realized capital gains and dividends from taxable Canadian corporations will be refunded to the Corporation. The Corporation will be liable to pay tax at corporate rates applicable to mutual fund corporations if income from other sources such as interest and foreign source income exceeds expenses and tax

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June 30, 2018

credits. Occasionally, when more income is distributed than earned by the Fund, it is deemed a return of capital and is not taxable to the shareholders.

The Fund 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 separately in the statement of comprehensive income.

(l) Securities lending transactions:

The Fund is permitted to enter into securities lending transactions, which involve the temporary exchange of securities for collateral with a commitment to redeliver the same securities at a future date. Fee income paid by counterparties from these transactions is recorded on an accrual basis, in the statement of comprehensive income.

(m) Change in accounting policy

The Fund adopted IFRS 9 *Financial Instruments* on January 1, 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for classification, measurement and impairment.

The classification and measurement requirements of IFRS 9 have been adopted prospectively as at January 1, 2018. The Fund is taking advantage of the option to not restate comparatives. Therefore, the 2017 figures are presented and measured under IAS 39.

In line with the characteristics of the Fund's financial instruments as well as its approach to their management, the Fund neither revoked nor made any new designations on January 1, 2018. IFRS 9 has not resulted in changes in the carrying value of the Fund's financial instruments due to changes in measurement categories. All financial assets that were classified as FVTPL under IAS 39 are still classified as FVTPL under IFRS 9. All financial assets that were classified as loans and receivables and measured at amortised costs continue to be measured at amortised cost.

| January 1, 2018 | Classification | | Measurement |
|--------------------|-----------------------------|----------------|-------------|
| | <u>IAS 39</u> | <u>IFRS 9</u> | \$ |
| Equity instruments | Held for trading at FVTPL | FVTPL | 713,827 |
| Debt instruments | Held for trading at FVTPL | FVTPL | 4,655,162 |
| Cash | Loans and receivables | FVTPL | 7,908,278 |
| Payables | Other financial liabilities | Amortised cost | 210,905 |

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Notes to Financial Statements (Unaudited)

June 30, 2018

3. Critical accounting estimates and judgments:

The preparation of these financial statements requires management to use judgement, make estimates and assumptions when applying the Fund's accounting policies. The following are the most significant accounting judgements and estimates made:

Fair value measurement of securities not quoted in an active market:

The Fund holds financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources. Where no market data is available, the Fund may value positions using valuation models that are recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

Models use observable data, to the extent practicable. However, areas such as credit risk, volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. See note 5 for more information on the fair value measurement of the Fund's financial instruments.

4. Financial instruments risk:

Risk factors:

The Fund's activities expose it to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most significant risks include credit risk, liquidity risk and market risk (including price risk, currency risk and interest rate risk). The level of risk depends on the type of securities the Fund invests in. The Fund's risk management program seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. These risks and related risk management practices employed by the Fund are as follows:

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Notes to Financial Statements (Unaudited)

June 30, 2018

4. Financial instruments risk (continued):

(a) Credit risk:

The Fund is exposed to credit risk, when a counterparty is unable to pay amounts in full when due. All transactions in listed securities are settled upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations. The Manager may choose to utilize multiple counterparties and those that have a high credit rating in order to minimize credit risk. The Manager performs ongoing credit evaluations based upon factors surrounding the credit risk of counterparties, historical trends and other information. The Fund limits its exposure to credit loss by dealing with counterparties of high quality.

The table below summarizes the credit quality of the Fund's debt portfolio as at June 30, 2018 and December 31, 2017:

| Credit rating | % of total debt securities | |
|---------------|----------------------------|----------------------|
| | June 30, 2018 | December 31, 2017 |
| B | 6.2 | 3.9 |
| BB+ | 17.8 | 10.8 |
| BB- | 6.5 | 3.9 |
| BBB+ | 26.8 | 21.8 |
| BBB | 27.4 | 22.1 |
| BBB- | 8.9 | 5.4 |
| Not rated | 6.4 | 32.1 |
| Total | 100.0 | 100.0 |

The Fund may engage in securities lending transactions. The credit risk related to securities lending transactions is limited by the fact that the value of cash of securities held as collateral by the Fund in connection with these transactions is at least 102 percent of the fair value of the securities loaned. The collateral and loaned securities are marked to market on each business day. There were no security loans outstanding as at June 30, 2018.

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Notes to Financial Statements (Unaudited)

June 30, 2018

4. Financial instruments risk (continued):

(b) Liquidity risk:

Liquidity risk is the possibility that investments of the Fund cannot be readily converted into cash when required. The Fund's investments may be subject to liquidity constraints because of insufficient volume in the markets or the securities may be subject to legal or contractual restrictions on their resale. In addition, the Fund is exposed to daily cash redemptions when a shareholder demands the redemption of shares at the current NAV. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed. Furthermore, the Fund mitigates liquidity risk by retaining sufficient cash and cash equivalent positions on hand.

All of the Fund's financial liabilities as at June 30, 2018 are due within three months. Redeemable shares are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity disclosed above will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

(c) Market risks:

The Fund's investments are subject to market risk when the fair value or future cash flows of a financial instrument fluctuate because of changes in market prices.

(i) Currency risk

The Fund holds assets denominated in currencies other than the Canadian dollar and is exposed to currency risk when the value of these assets fluctuate due to changes in exchange rates. The Fund may enter into forward foreign exchange contracts primarily with the intention of mitigating exchange rate risks associated with its investments and also, to enhance returns to the portfolio. The Canadian dollar value of forward foreign exchange contracts is determined using forward currency exchange rates supplied by an independent service provider. Losses may arise due to a change in the value of the foreign currency or if the counterparty fails to perform under the contract.

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4. Financial instruments risk (continued):

The table below summarizes the Fund's exposure to currency risks as at June 30, 2018 and December 31, 2017. Had the exchange rate between the Canadian dollar and the foreign currencies increased (decreased) by 10%, with all other variables held constant, net assets attributable to holders of redeemable shares would have increased (decreased) increased by \$383,109 on June 30, 2018 (December 31, 2017 - \$288,384). In practice, actual results may differ from this sensitivity analysis.

| | Monetary | Non-monetary | Total exposure | % of net assets |
|--------------------------|--------------|--------------|----------------|-----------------|
| <u>June 30, 2018</u> | | | | |
| United States dollars | \$ 2,659,008 | \$ 1,172,084 | \$ 3,831,092 | 31.3 |
| <u>December 31, 2017</u> | | | | |
| United States dollars | \$ 1,213,381 | \$ 1,670,462 | \$ 2,883,843 | 22.0 |

(ii) Interest rate risk:

The Fund invests in interest bearing financial instruments and is exposed to interest rate risk when changes in interest rates affect future cash flows or fair values of financial instruments. In addition, as interest rates fall and fixed-income security issuers prepay principal, the Fund may have to reinvest this money in securities with lower interest rates. The Fund's exposure to interest rate risk is concentrated in its investment in money market instruments and fixed income securities. Other assets and liabilities are short-term in nature and/or non-interest bearing.

The tables below summarize the Fund's exposure to interest rate risk as at June 30, 2018 and December 31, 2017. They include the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

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Notes to Financial Statements (Unaudited)

June 30, 2018

4. Financial instruments risk (continued):

| | Less than 1 year | 1 -3 years | Greater than 3 years | Total |
|--------------------------|---------------------|---------------|-------------------------|--------------|
| <u>June 30, 2018</u> | | | | |
| Fixed income | \$ 1,438,351 | \$ 1,021,631 | \$ 357,587 | \$ 2,817,569 |
| <u>December 31, 2017</u> | | | | |
| Fixed income | \$ 2,318,868 | \$ 1,970,199 | \$ 366,094 | \$ 4,655,161 |

As at June 30, 2018, if the prevailing interest rate had increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, net assets attributable to holders of redeemable shares may have decreased or increased, respectively, by \$35,203 (December 31, 2017: \$76,519). The Fund's interest rate sensitivity was determined based on portfolio weighted duration. In practice, actual results may differ from this sensitivity analysis.

(iii) Other price risk:

Other price risk occurs when the fair value or future cash flows of a financial instrument fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk). The Manager aims to moderate this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Fund's investment objectives and strategy.

The impact on net assets of the Fund due to a 10% change in the valuation of equity investments held by the fund, as at June 30, 2018, with all other variables held constant, is \$122,220 (December 31, 2017 - \$71,383). This analysis assumes that all other variables are unchanged. The historical correlation may not be representative of the future correlation.

(iv) Concentration risks:

Concentration risk arises when there is a concentration of investment exposure within the same category such as geographical location, product type, industry sector or counterparty type. The schedule of investments shows a summary of the Fund's concentration risk of its investment portfolio as a percentage of net assets.

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5. Fair value measurement:

The Fund classifies fair value measurements within a hierarchy that categorizes the three levels of inputs to valuation techniques used to measure fair value, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices in Level 1 that are observable for the assets or liabilities, directly (ie. as prices) or indirectly (ie. 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. The following fair value hierarchy table present information about the Fund's assets and liabilities measured at fair value within the fair value hierarchy.

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------|--------------|--------------|--------------|--------------|
| <u>June 30, 2018</u> | | | | |
| Financial assets: | | | | |
| Equities | \$ 1,127,399 | \$ – | \$ 94,651 | \$ 1,222,050 |
| Bonds * | – | 2,636,073 | 181,498 | 2,817,569 |
| | \$ 1,127,399 | \$ 2,636,073 | \$ 276,149 | \$ 4,039,619 |
| <u>December 31, 2017</u> | | | | |
| Financial assets: | | | | |
| Equities | \$ 623,669 | \$ – | \$ 90,159 | \$ 713,828 |
| Bonds* | – | 3,163,926 | 1,491,235 | 4,655,161 |
| | \$ 623,669 | \$ 3,163,926 | \$ 1,581,394 | \$ 5,368,989 |

* Bonds classified as level 3 are convertible into shares of a publicly traded company.

Level 3 securities are valued at the transaction price, an unobservable input. The potential values for Level 3 securities range from a full recovery of the cost of purchase (June 30, 2018: \$277,510, December 31, 2017: \$1,693,586) to complete impairment (December 31, 2017 – complete impairment).

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5. Fair value measurement (continued):

(a) Equities:

The Fund's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable.

(b) Bonds and short-term investments:

Bonds are primarily government and corporate bonds, are valued at prices received from independent pricing services or from dealers who make a market in such securities.

Certain of the Fund's bonds do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g. transactions for similar securities of the same issuer) 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.

Fair values are classified as Level 1 when the security is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. 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 gives rise to the transfer.

A reconciliation of Level 3 financial instruments is as follows:

| | June 30, 2018 | December 31, 2017 |
|-----------------------------------|------------------|----------------------|
| Balance, beginning of period | \$ 1,581,394 | \$ 302,654 |
| Acquisitions | - | 1,480,144 |
| Disposition | (1,309,438) | (201,404) |
| Change in unrealized depreciation | 4.193 | - |
| Balance, end of period | \$ 276.149 | \$ 1,581,394 |

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6. Redeemable shares:

Shares issued and outstanding are considered to be the capital of the Fund, which is managed in accordance with the investment objective of the Fund. The Fund does not have any specific capital requirements on the subscription and redemption of shares, other than certain minimum subscription requirements. Shareholders are entitled to payment of the net asset value per share of their shares by giving notice no later than 4:00 p.m., EST, on the valuation day upon which the shares are to be redeemed. The shares are redeemable for cash equal to a pro rata share of the Fund's Net Asset Value.

The Fund may issue an unlimited number of shares of each series. Series A shares are available to all investors. Series F shares are available to investors who participate in fee-based programs through dealers that have signed a Series F agreement with the Manager. Series I shares are available to investors that invest a minimum initial investment of \$1 million in the Fund, at the discretion of the Manager. Each series of Series I shares have different management fees which are negotiated between the shareholder and the Manager.

Shares of a series of the Fund represent the shareholders' ownership in the Fund. Distributions of the Fund's net income and capital gains are allocated to shareholders based on their relative net asset value per share for each series in a Fund. Upon the termination of the Fund, shareholders receive a pro rata share in a Fund's net assets. Shareholders are entitled to vote at the shareholder meetings of the Fund as a whole, as well as any shareholder meetings for the particular series of shares.

The number of shares issued, redeemed and outstanding during the periods indicated are as follows:

| | Series F | | Series I | |
|--|------------------|----------------------|------------------|----------------------|
| | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 |
| Shares outstanding, beginning of period | 38,857 | 238,512 | 1,174,881 | 1,110,583 |
| Redeemable shares issued | - | 1,275 | 49,970 | 230,528 |
| Redeemable shares redeemed | (23,607) | (225,437) | (158,224) | (166,230) |
| Redeemable shares exchange in | 23,478 | 18,239 | - | - |
| Redeemable shares exchange out | - | - | (20,151) | - |
| Shares issued on reinvestment of distributions | 130 | 4,268 | 49,410 | - |
| Shares outstanding, end of period | 36,858 | 36,857 | 1,095,886 | 1,174,881 |

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| | Series I.1 | | Series I.2 | |
|--|------------------|----------------------|------------------|----------------------|
| | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 |
| Shares outstanding, beginning of period | 10,154 | 81,415 | - | - |
| Redeemable shares issued | - | 2,152 | - | - |
| Redeemable shares redeemed | (9,019) | (43,185) | - | (13,282) |
| Redeemable shares exchange in | - | - | - | 13,282 |
| Redeemable shares exchange out | - | (30,228) | - | - |
| Shares issued on reinvestment of distributions | 283 | - | - | - |
| Shares outstanding, end of period | 1,418 | 10,154 | - | - |

7. Related party transactions:

(a) Management and incentive fees:

The Fund pays the Manager an annual management fee of up to 2% for Series A shares and up to 1% for Series F shares, plus applicable taxes. The management fee for Series I shares are negotiated between the shareholder and the Manager. The management fee is calculated and accrued daily and is paid on the last day of each month based on the average daily net asset value of the Fund.

As at June 30, 2018, a management fee of \$913 (December 31, 2017 - \$1,302) was payable to the Manager

The Fund will pay the Manager an annual incentive fee, plus applicable taxes, equal to 20% of the difference by which the return in the net asset value per share of the applicable series of the Fund in a calendar year exceeds the percentage return of the Fund's benchmark, the FTSE/TIMX Universe Bond Index. If the performance of a series of the Fund in any year is less than the performance of the benchmark (the "Deficiency"), then no incentive fee will be payable in any subsequent year until the performance of the applicable series, on a cumulative basis calculated from the first of such subsequent years has exceeded the amount of the Deficiency.

(b) Expenses:

The Fund is responsible for the payment of all direct expenses related to its operations, such as brokerage commissions and fees, taxes, audit and legal fees, safekeeping and

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custodial fees and other expenses. Each series of shares of the Fund is responsible for the operating expenses that relate specifically to that series.

8. Increase in net assets attributable to holders of redeemable shares per unit:

The increase (decrease) in net assets attributable to holders of redeemable shares per share for the period ended June 30 is calculated as follows:

| 2018 | Series F | Series I | Series I.1 | Series I.2 |
|--|-----------|------------|------------|------------|
| Increase in net assets to holders of redeemable shares | \$ 10,511 | \$ 609,943 | \$ 1,759 | \$ - |
| Weighted average shares outstanding during the period | 38,029 | 1,135,391 | 3,816 | - |
| Increase in net assets attributable to holders of redeemable shares per unit | \$ 0.28 | \$ 0.54 | \$ 0.46 | \$ - |
| 2017 | Series F | Series I | Series I.1 | Series I.2 |
| Increase (decrease) in net assets to holders of redeemable shares | \$ 4,313 | \$ 37,524 | \$ (5,659) | \$ (634) |
| Weighted average shares outstanding during the period | 150,112 | 1,145,390 | 64,241 | 13,282 |
| Increase in net assets attributable to holders of redeemable shares per unit | \$ 0.03 | \$ 0.03 | \$ (0.09) | \$ (0.05) |

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9. Income taxes:

The Corporation computes its net income (loss) and net capital gains (losses) for income tax purposes as a single entity. Therefore, net losses of one class may be used to offset net gains of another class to reduce the total net income or net gain of the Corporation as a whole. It is assumed that the Fund will continuously qualify as a mutual fund corporation and as a financial intermediary as defined in the Income Tax Act (Canada) (the "Act") and will not qualify as an investment corporation under the Act.

All income of the Corporation, including taxable capital gains net of allowable capital losses, will be subject to tax at normal corporate rates. Taxes payable on net realized capital gains are refundable on a formula basis when shares are redeemed or the Corporation elects to pay capital gains dividends. Dividends received by the Corporation on taxable dividends from taxable Canadian corporations are subject to a 38.33% tax which is refundable on payment of sufficient taxable dividends by the Corporation. Taxes payable by the Corporation on income from other sources (such as interest, foreign income and distributions of income from royalty trusts and exchange traded funds) are not refundable.

10. Net gain (loss) from financial assets at fair value through profit or loss:

| | Six month period ending June 30, | |
|--|----------------------------------|--------------------|
| | 2018 | 2017 |
| Net realized loss on financial assets: | | |
| Financial assets designated at fair value through profit or loss | \$ 4,595 | \$ (17,954) |
| Net change in unrealized gain on financial assets: | | |
| Financial assets designated at fair value through profit or loss | (73,093) | (71,453) |
| | <u>\$ (68,498)</u> | <u>\$ (89,407)</u> |

The net realized loss on financial assets at fair value through profit or loss represents the difference between the carrying amount of the financial asset at the beginning of the reporting period, or the transaction price if it was purchased during the reporting period, and its sale or settlement price.

The net change in unrealized gain on financial assets represents the difference between the carrying amount of a financial asset at the beginning of the reporting period, or the transaction price if it was purchased during the reporting period, and its carrying amount at the end of the reporting period.