PORTLAND
INVESTMENT COUNSEL®

Portland Private Income Fund

2014 Interim Report

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June 30, 2014

PORTFOLIO MANAGEMENT TEAM	**Christopher Wain-Lowe**, BA, MBA Executive Vice President and Portfolio Manager	**Dragos Berbecel, MBA, CFA** Portfolio Manager

Overview

The investment objective of the Portland Private Income Fund (the "Fund" or "PPIF") is to preserve capital and provide income and above average long-term returns. The Fund ultimately intends to achieve its investment objective by investing all, or substantially all, of its net assets in the Portland Private Income LP (the "Partnership" or "Underlying Fund"). Although the Fund ultimately intends to invest all, or substantially all, of its net assets in the Partnership, Portland Investment Counsel Inc. (the "Manager") currently determines and, from time to time, may determine that the investment objective of the Fund can be best achieved through direct investment in underlying securities and/or investment in other pooled investment vehicles. To the extent the Fund makes direct investments, it will apply the investment strategies of the Partnership.

The investment objective of the Partnership is to preserve capital and provide income and above average long-term returns by investing primarily in a portfolio of private debt securities, either directly or indirectly through other funds, initially consisting of:

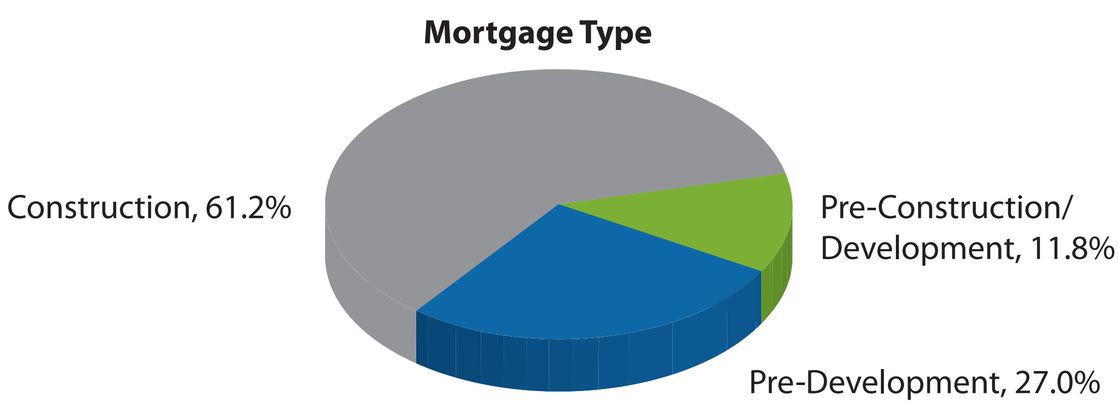
- private mortgages, administered by licensed mortgage administrators, currently MarshallZehr Group Inc. (Mortgage Administration #11955);
- private commercial debts, currently managed by Crown Capital Partners Inc., a portion of which may have participating features resulting in equity ownership of the issuer of the debt or the underlying asset if certain events occur;
- other debt securities, a portion of which may have participating features resulting in equity ownership of the issuer of the debt or the underlying asset if certain events occur; and
- investments in complementary income producing public securities, including real estate income trusts, royalty income trusts, preferred shares, dividend paying equity securities and debt securities including convertibles, corporate and sovereign debt.

The following discussion covers the period from December 31, 2013 to June 30, 2014.

Recent Developments and Outlook

The Fund's current investments consist primarily of mortgages in the Greater Toronto Area (GTA), South-Western Ontario and Central Ontario including a variety of infill and intensification projects with what the Manager believes to be well-established developers located in areas of increased demand. The projects span the pre-development, development and construction stages (see Table 1 and Chart 1).

Chart 1. Portland Private Income Fund's mortgage portfolio breakdown by mortgage type as of June 30, 2014



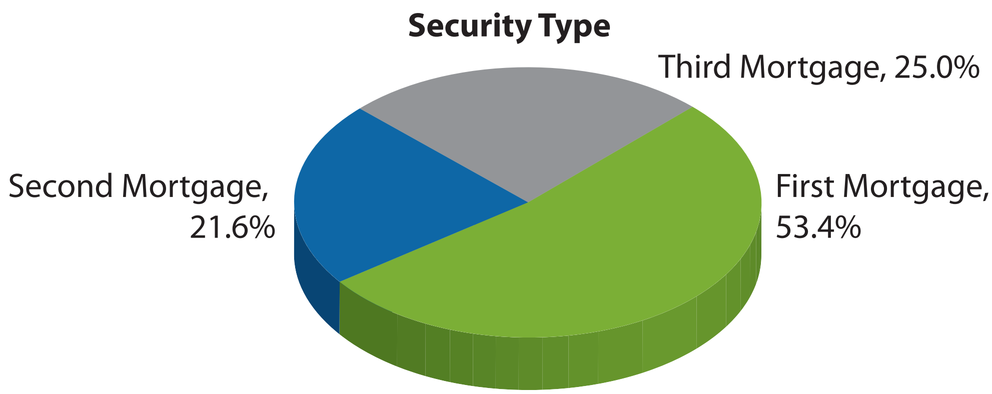
As the Manager, we attended the Canadian Housing & Mortgage conference in June which was organized by Royal Bank of Canada, and included attendees from chartered banks, monoline lenders, private mortgage insurers and real estate developers. All presenters expressed confidence in the general robustness of the current real estate market but were more cautious regarding several regional markets. The backdrop to the conference was twofold: the news in April that Canada's financial regulator, The Office of the Superintendent of Financial Institutions (OFSFI) is looking to issue new guidelines that would compel mortgage insurers to conduct due diligence on the ability of higher risk borrowers to service their debts and also require them to tighten monitoring procedures; and the news in June that Canada Mortgage and Housing Corporation (CMHC) is to stop offering mortgage insurance to condo developers and stop insuring mortgages on second homes.

Against this backdrop, the consensus view seems to be that a gradual increase in rates, even coupled with the current and expected more restrictive CMHC and OSFI rules, should only result in a flattening or decelerating rise in home prices over the medium term, while home resales should be stationary, underpinned by mildly improving macro-economic conditions and continued robust household formation. Many participants viewed the CMHC and OSFI 'macroprudential' changes as timely and appropriate, helping to bring more discipline to the market, improving the quality of the underwriting standards and increasing investor confidence. We believe, therefore, that indicators of housing market trends continue to look healthy, including rental vacancy rates, level of rents, absorption of condo units, the sales-to-new-listings ratios, months of housing inventory and housing affordability.

In June, Bank of Montreal Capital Markets (BMO) issued an interesting perspective on the housing market in which they highlighted that demographics are also playing a supportive role[1]. It is estimated that there are nearly 10 million Canadian 'baby boomers', aged 49 – 67, but they are exceeded by the younger generation aged 20 – 38. While fertility rates among boomers were lower than for their parents, young immigrants more than make up the difference. This youthful group is now progressing through their first and second house buying years. BMO remind that "the 25-34 year old subset has been an important contributor to Canada's housing market cycles over the past 25 years, including a massive plunge that coincided with the deep bear market that started in 1989 – population in that age group fell 20% in just 10 years." Looking ahead BMO believes that regionally, population growth in the 25-34 group is expected to remain firm in Ontario and Western Canada, while Quebec and Atlantic Canada have already begun to fade, with such demographics therefore posing a challenge for Quebec and Atlantic Canada while remaining supportive in Ontario. A valid concern is that as the baby boomers move into their retirement they will be looking to downsize. Statistics Canada data does show at least some movement of the 65+ group out of single detached homes but this is more than offset by the increasing demands of the younger generation. Therefore, it seems the downsizing of the boomers out of their single detached homes should be absorbed by the younger generation (including immigrants) at least in the coming years. Also, when development constraints are taken into consideration, particularly around parts of the GTA, we believe the risk is that the supply of single detached homes will remain tight, so pressuring prices higher.

We therefore remain mindful of the well publicized over-supply of residential real estate projects in certain areas of the market, with about 55,000 condo units at various levels of completion across the GTA as at the end of Q1 2014[2], and we are applying selectivity and a rigorous due diligence process that we believe ensures a high quality in each project, strength in management, tangible security, an achievable business plan and clear realization of the anticipated returns. The Fund has no exposure to the condo market in Toronto but has exposure in Ontario's retirement market. As of June 30, 2014, the weighted average loan-to-value (LTV) of the mortgage portion of the Fund's portfolio was 69% and its security consisted primarily of first mortgages (see Table 1 and Chart 2).

Chart 2. Portland Private Income Fund's mortgage portfolio breakdown by type of security as of June 30, 2014



MarshallZehr Group Inc., the Mortgage Administrator, continues to focus on dynamic high growth geographies/niches which have been underserved by traditional lenders, where it draws on its extensive business experience in the commercial finance and real estate.

We remain confident that current investments, as well as a robust pipeline of investment opportunities, structured/arranged by the Mortgage Administrator and the Specialty Investment Manager, Crown Capital Partners, will allow the Fund to continue to provide its unitholders with similar levels of fully funded annual distributions, paid monthly. We anticipate that the Fund and/or the Partnership will be making its first commercial loans investment with Crown Capital Partners in late 2014/early 2015.

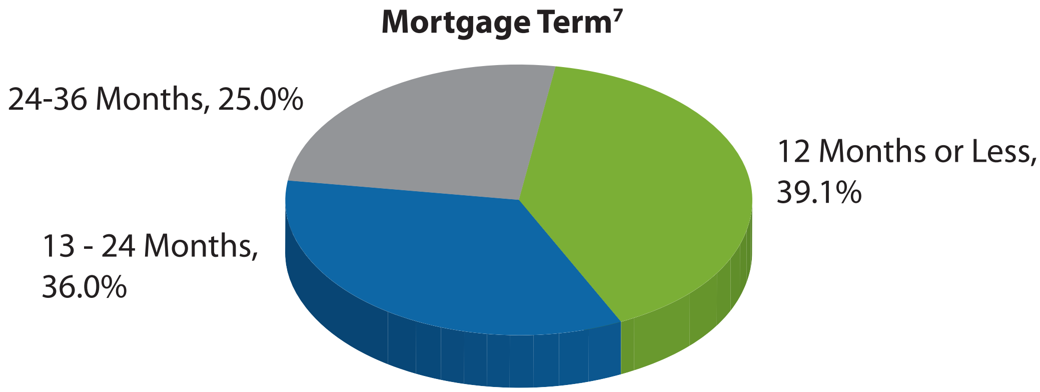
Financial Highlights

The Fund's one year return as of June 30, 2014 was 9.4% for Series F while Series A's one year return was 8.1%.

The Fund declared quarterly distributions commencing with the quarter ending March, 2013 and moved to monthly fixed distributions since January, 2014. For the month ended June 30, 2014, the Fund declared a distribution of $0.3333 per Series A unit and $0.3750 per Series F unit. The amount of distributions declared since inception is $4.81 per Series A unit and $5.579 per Series F unit.

With prospects for interest rates to stay lower for longer, we believe the Fund will continue to outperform publicly traded fixed income instruments. For the 12 months period ended June 30, 2014 the DEX Short Term Bond Index[3] achieved 3.21% total return while the iShares DEX Short Term Bond Index Fund returned 2.93%[4]. Given the Fund's exposure to mostly short term loans (see Chart 3), we believe it retains the flexibility and capability to outperform publicly listed fixed income instruments when higher rates will, eventually, return.

Chart 3. Portland Private Income Fund's mortgage portfolio breakdown by mortgage term (as at time of investment) as of June 30, 2014



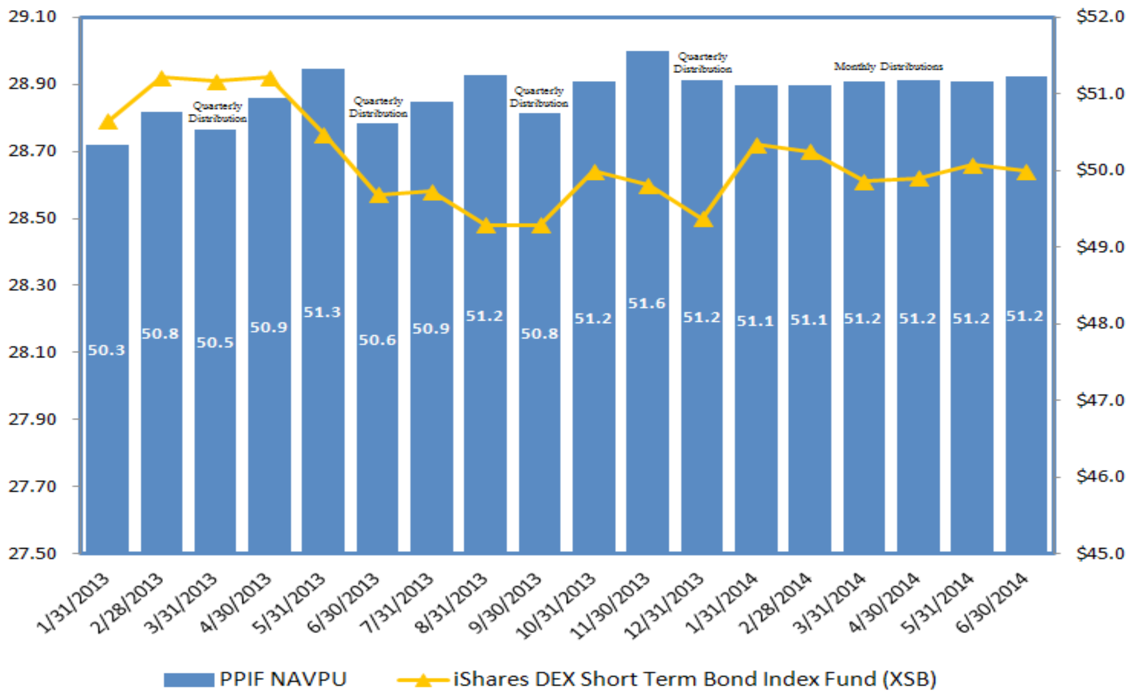
The weighted average net interest rate of the mortgage portfolio at June 30, 2014 is 11.29% (see Table 1).

Table 1. Portland Private Income Fund's mortgage portfolio as of June 30, 2014

Build Form	Location	Type	Security	Term	Net Yield	Loan to Value[6]
Senior Condominium	Richmond Hill	Pre-Development	1st Mortgage	12 months	10.63%	80%
Residential Subdivision	Mississauga	Construction	1st Mortgage	18 months	10.00%	65%
Residential Subdivision	King City	Pre-Development	1st Mortgage	12 months	10.00%	51%
Professional Condominium	Markham	Pre-Construction/ Development	1st Mortgage	12 months	12.00%	61%
Residential Condominium	Stoney Creek	Construction	2nd Mortgage	24 months	11.90%	76%
Mixed Use Condominium	Kitchener	Construction	3rd Mortgage	36 months	12.75%	84%
Residential Subdivision	Kitchener	Construction	2nd Mortgage	24 months	11.90%	58%
Senior Condominium	North GTA	Construction	1st Mortgage	24 months	10.20%	70%
Senior / Healthcare Condominium	Peterborough	Pre-Development	1st Mortgage	18 months	10.50%	59%
Apartment Building	Peterborough	Construction	1st Mortgage	18 months	10.20%	78%
Residential Subdivision	Guelph	Pre-Development	1st Mortgage	12 months	10.20%	60%
Weighted Average					**11.29%**	**69%**

Net asset value per unit at June 30, 2014, was $51.23 for Series F and $50.36 for Series A. The Fund has managed to deliver a since inception 9.4% annualized return for Series F (8.0% for Series A), while exhibiting little variance in its monthly net asset value per unit (and even less now that distributions are paid monthly) compared to publicly listed short term debt instruments, such as the iShares DEX Short Term Bond Index Fund, as depicted in Chart 4.

Chart 4. Historical net asset value per unit for the Fund's Series F (right hand) versus iShares DEX Short Term Bond Index Fund (XSB) (left hand), from January 31, 2013, to June 30, 2014[4]



Credit risk

Credit risk is the risk of suffering financial loss should any of the Fund's borrowers fail to fulfill their contractual obligations to the Fund.

Credit risk is managed by adhering to the investment and operating policies, as set out in the Fund's Offering Memorandum. This includes the following policies:

- the majority of mortgages are generally expected to be written for terms of 6 to 36 months and supported by commercial liability insurance and by personal or corporate guarantees; and
- mortgages are generally expected to be written for a principal amount at the time of commitment (together with the principal balance outstanding on prior mortgages if applicable), not exceeding 75% of the determined value of the underlying property securing the mortgage.

Such risks are further mitigated by ensuring a comprehensive due diligence process is conducted on each mortgage prior to funding. This process generally includes, but is not limited to, reviewing legal documentation, independent appraisers' valuations and credit checks and financial statement reviews on prospective borrowers.

Measurement of credit risk via 'Expected Loss'

Although we believe there to be no objective impairment evidence across the Fund's mortgage investments we wish to be prudent. At least annually we will estimate a collective allowance attributable to the portfolio based on probabilities of inherent losses that are as yet unidentified. The approach adopted is 'Expected Loss' a methodology which performs a quantitative calculation of the collective allowance to arrive at a probable quantitative value of the overall collective allowance. This methodology is similar to regulatory capital calculations already employed by banks and so represents the industry's regulatory standard.
The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of the credit risk to which the Fund is exposed, from the level of individual borrowers up to the total portfolio. The key building blocks of this process are:

- Probability of default (PD)
- Loss Given Default (LGD); and
- Exposure at default (EAD)

For example, the Fund can assign an Expected Loss over the next 12 months to each borrower by multiplying these three factors. We calculate probability of default (PD) by assessing the credit quality of borrowers. For the sake of illustration, suppose a borrower has a 2% probability of defaulting over a 12-month period.

The exposure at default (EAD) is our estimate of what the outstanding balance will be if the borrower does default. Suppose the current balance is C$100,000, our models might predict a rise to $110,000 by then. Should borrowers default, some part of the exposure is usually recovered. The part that is not recovered, together with the costs associated with the recovery process, comprise the loss given default (LGD), which is expressed as a percentage of EAD. Suppose the LGD in this case is estimated to be 10%, the Expected Loss for this borrower is then calculated as 2% x $110,000 x

10% or $220 (i.e. 0.22% of the outstanding balance).

To calculate probability of default the Fund assesses the credit quality of borrowers and utilizes publicly available risk default data to help determine both point in time and through-the-cycle estimations of PD. When assessing exposure at default the Fund anticipates mortgages to be fully drawn and for the purposes of assessing the loss given default the Fund makes adjustments to account for the increased losses experienced under downturn conditions.

Based on this Expected Loss methodology we conducted an assessment at the beginning of the year from which we assigned a collective allowance/collective loan loss provision attributable to the Fund's portfolio at a rate of 0.25% of outstanding balances which we increased to 0.40% in July, recognizing that such related losses have yet to be identified. This Expected Loss collective allowance is a deduction from the Fund's calculated net asset value and the distributions are paid after including this allowance. As of June 30, 2014, the Fund had made no fair value provisions and no losses were recognized during the period.

Potential Risks

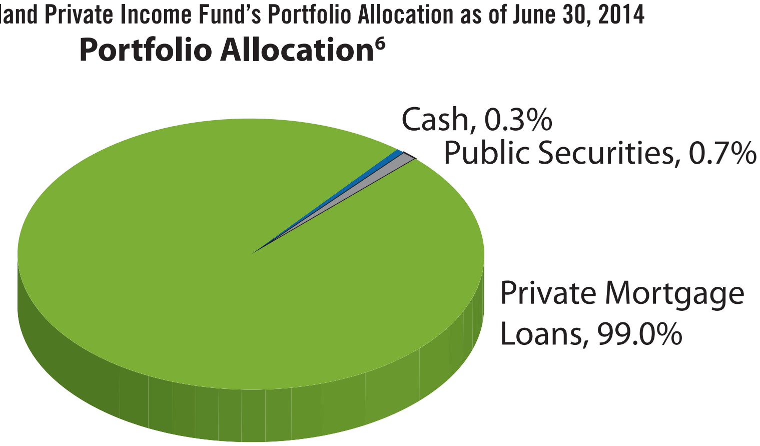
While the Manager, MarshallZehr Group Inc. and Crown Capital Partners exercise due diligence throughout the lending process, no guarantees can be given to offset a risk of loss and investors should consult with their financial advisor prior to investing in the Fund. The Manager believes that given the character of the private debt investments that are making up the majority of the Fund's holdings, the Fund has less exposure to the market risk than a similar fund invested in publicly listed securities would.

The Manager believes the following risks are key to the Fund's performance, please read the "Risk Factors" section in the Fund's Offering Memorandum for a more detailed description of all the relevant risks: nature of investments, credit, interest rate, general economic and market conditions, liquidity, marketability and transferability of units.

Portfolio Profile

The current portfolio is 99% comprised of commercial mortgages (see Chart 5), diversified across project types, geography, project stage and term, as detailed in Table 1. As of June 30, 2014, 100% of the mortgage investments were in Ontario.

Chart 5. Portland Private Income Fund's Portfolio Allocation as of June 30, 2014



The remainder of the portfolio consists of cash and cash equivalents, as well as a modest position in Ares Capital Corporation, a leading US specialty finance company focused on lending to underserved middle market companies. It provides 'one stop' financing via a combination of senior and subordinated loans. Its focus is on high free cash flow companies in defensive industries and is one of the largest regulated business development companies in the US.

1. "The Housing Market's Echo Boom", Robert Kavcic, BMO Capital Markets June 13, 2014
2. "Canadian Mortgage Primer", 5th Edition, May 29, 2014
3. The DEX Short Term Bond Index is a sub-index of the DEX Universe Bond Index and includes bonds with remaining effective terms greater than 1 year and less than or equal to 5 years. The DEX Universe Bond Index is designed to be a broad measure of the Canadian investment-grade fixed income market. The DEX Universe Bond Index and the DEX Short Term Bond Index are Trade Marks of PC-Bond.
4. iShares by Blackrock, DEX Short Term Bond Index Fund, http://ca.ishares.com/product_info/fund/overview/XSB.htm
5. Remaining term as of current date.
6. Loan-to-value is the ratio of: loans advanced to date, to the appraised value of the project by MarshallZehr and/or independent appraisers.
7. Excluding liabilities.

Additional Sources:

- Statistics Canada
- Thomson-One

Management's Responsibilities for Financial Reporting

The accompanying financial statements have been prepared and approved by Portland Investment Counsel Inc., the manager and trustee (the "Manager") of Portland Private Income Fund (the "Fund"). The Fund's Manager is responsible for the information and representations contained in these financial statements. The Board of Directors of the Manager is responsible for reviewing and approving the financial statements.

The Manager maintains 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 that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 to these financial statements.

"Michael Lee-Chin"

Michael Lee-Chin,
Director
August 22, 2014

"Robert Almeida"

Robert Almeida,
Director
August 22, 2014

These financial statements have not been reviewed by an independent auditor.

Schedule of Investment Portfolio
as at June 30, 2014

	No. of Shares	Description	Cost	Carrying Value
EQUITIES				
US Equities				
	1,600	Ares Capital Corporation	$ 29,985	$ 30,506
MORTGAGES				
		Private Mortgage Loans (Note 5)	4,281,276	4,270,268
		TOTAL INVESTMENTS	$ 4,331,261	$ 4,300,774

Statements of Financial Position (unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	$ 14,219	$ 2,471
Subscriptions receivable	398,750	31,000
Interest receivable	122,083	32,981
Investments (Note 5, 6)	4,300,774	1,906,549
Total Assets	4,835,826	1,973,001
Liabilities		
Current Liabilities		
Accrued expenses	4,773	4,031
Distributions payable	5,540	-
Total Liabilities	10,313	4,031
Net Assets Attributable to Holders of Redeemable Units	4,825,513	1,968,970
Net Assets Attributable to Holders of Redeemable Units Per Series (Note 7)		
Series A	937,945	462,516
Series F	3,592,653	1,394,903
Series O	294,915	111,551
Number of Redeemable Units Outstanding		
Series A	18,626	9,179
Series F	70,121	27,252
Series O	5,900	2,232
Net Assets Attributable to Holders of Redeemable Units per Unit		
Series A	50.36	50.39
Series F	51.23	51.19
Series O	49.98	49.98

Approved on behalf of the Trustee, Portland Investment Counsel Inc.

"Michael Lee-Chin"
Director

"Robert Almeida"
Director

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

Statements of Comprehensive Income (unaudited)

for the periods ended June 30	2014	2013*
Income		
Net gains (losses) on investments (Note 2)		
Interest for distribution purposes	$ 185,327	$ 15
Dividends	925	-
Net realized gain (loss)	399	-
Change in unrealized appreciation (depreciation)	340	24,475
	186,991	24,490
Foreign currency gain (loss) on cash and other net assets	(1,401)	-
Expenses		
Mortgage administration fees	29,177	-
Collective allowance (Note 3)	11,008	-
Management fees (Note 8)	7,434	1,404
Service fees (Note 8)	3,998	629
Securityholder reporting costs	20,793	21,494
Audit fees	9,502	4,916
Custodian fees	401	2,130
Legal fees	8,097	-
Independent review committee fees	2,771	2,694
Interest and borrowing expense	7	12
Transaction costs	43	-
Withholding tax expense	119	-
Organizational expenses (Note 8)	6,751	-
	100,101	33,279
Less: expenses absorbed by Manager (Note 8)	(40,321)	(30,532)
Total operating expenses	59,780	2,747
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	125,810	21,743
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Series		
Series A	27,922	2,392
Series F	90,209	19,351
Series O	7,679	-
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Series per Unit		
Series A	2.01	0.73
Series F	2.36	2.46
Series O	2.44	-

*From December 17, 2012 (date of formation) to June 30, 2013

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

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

for the periods ended June 30	2014	2013*
Net Assets Attributable to Holders of Redeemable Units at Beginning of Period		
Series A	$ 462,516	$ -
Series F	1,394,903	-
Series O	111,551	-
	1,968,970	-
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units		
Series A	27,922	2,392
Series F	90,209	19,351
Series O	7,679	-
	125,810	21,743
Distributions to Holders of Redeemable Units		
From net investment income		
Series A	(27,885)	(4,066)
Series F	(86,286)	(16,288)
Series O	(7,505)	-
	(121,676)	(20,354)
From net realized gains on investments		
Series A	-	(247)
Series F	-	(990)
Series O	-	-
	-	(1,237)
Net Increase (Decrease) from Distributions to Holders of Redeemable Units	(121,676)	(21,591)
Redeemable Unit Transactions		
Proceeds from issuance of redeemable units		
Series A	447,507	214,667
Series F	2,114,916	591,499
Series O	194,000	-
	2,756,423	806,166
Reinvestments of distributions to holders of redeemable units		
Series A	27,885	4,313
Series F	78,911	17,278
Series O	7,505	-
	114,301	21,591
Redemption of redeemable units		
Series A	-	-
Series F	-	-
Series O	(18,315)	-
	(18,315)	-
Net Increase (Decrease) from Redeemable Unit Transactions	2,852,409	827,757
Net Assets Attributable to Holders of Redeemable Units at End of Period		
Series A	937,945	217,056
Series F	3,592,653	610,853
Series O	294,915	-
	4,825,513	827,909

*From December 17, 2012 (date of formation) to June 30, 2013

Statements of Cash Flows (unaudited)

for the periods ended June 30		2014		2013*
Cash Flows from Operating Activities				
Increase / (decrease) in net assets attributable to holders of redeemable units	$	125,810	$	21,743
Adjustments for:				
Foreign currency (gain) loss on cash and other net assets		1,401		-
Collective allowance		11,008		-
Net realized gain (loss) on investments		(399)		-
Change in unrealized appreciation (depreciation) on investments		(340)		(24,475)
(Increase) decrease in interest receivable		(89,102)		-
Increase (decrease) in distributions payable		5,540		-
Increase (decrease) in other payable and accrued liabilities		742		2,939
Purchase of investments		(2,718,048)		(766,868)
Proceeds from sales of investments		313,554		-
Net Cash Generated (Used) by Operating Activities		(2,349,834)		(766,661)
Cash Flows from Financing Activities				
Distributions to holders of redeemable units, net of reinvested distributions		(7,375)		-
Proceeds from redeemable units issued		2,388,673		766,666
Amount paid on redemption of redeemable units		(18,315)		-
Net Cash Generated (Used) by Financing Activities		2,362,983		766,666
Net increase (decrease) in cash and cash equivalents		11,748		5
Cash and cash equivalents beginning of period		2,471		-
Cash and Cash Equivalents End of Period		14,219		5
Cash and cash equivalents comprise:				
Cash at bank		14,219		5
Interest received, net of withholding tax		96,225		15
Dividends received, net of witholding tax		806		-
Interest paid		7		12
Distributions paid		7,375		-
Income taxes paid		-		-

*From December 17, 2012 (date of formation) to June 30, 2013

Notes to Financial Statements (unaudited)

1. GENERAL INFORMATION

Portland Private Income Fund (the "Fund") is an open-ended unit trust established by Portland Investment Counsel Inc. (the "Trustee" or "Manager") as trustee under the laws of Ontario pursuant to a Master Declaration of Trust dated as of December 17, 2012 (the "Declaration of Trust"). The Fund commenced operations on January 7, 2013. The Trustee is a corporation formed under the laws of Ontario. The Trustee has ultimate responsibility for the business and undertaking of the Fund in accordance with the terms of the Declaration of Trust. The Trustee has engaged the Manager to manage the Fund on a day-to-day basis, including management of the Fund's portfolio and distribution of the units of the Fund. The registered office of the Manager is 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7.

The investment objective of the Fund is to preserve capital and provide income and above average long-term returns. The Fund intends to achieve its investment objective by investing all, or substantially all, of its net assets in the Portland Private Income LP (the "Partnership" or "Underlying Fund"). Although the Fund intends to invest all, or substantially all, of its net assets in the Partnership, the Manager may from time to time determine that the investment objective of the Fund can be best achieved through direct investment in underlying securities and/or investment in other pooled investment vehicles. To the extent the Fund makes direct investments, it will apply the investment strategies of the Partnership. The investment objective of the Partnership is to preserve capital and provide income and above average long-term returns by investing primarily in a portfolio of private debt securities.

During the period ending December 31, 2013, the Fund invested the majority of its net assets in units of the Partnership. On October 25, 2013, the Fund redeemed its units and received mortgage investments from the Partnership as consideration. Accordingly, interest on the related mortgages was earned in the Partnership for the period from commencement of the Fund until October 25, 2013. Thereafter, interest on the mortgage investments was earned in the Fund. As at June 30, 2014, the Fund did not own any units of the Partnership, but it may purchase units in the future.

2. BASIS OF PRESENTATION AND ADOPTION OF IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and IFRS 1 First-time Adoption of International Financial Reporting Standards. The Fund adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles as defined in Part V of the Chartered Professional Accountants of Canada Handbook (Canadian GAAP). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 12 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 22, 2014, which is the date on which the interim financial statements were authorized for issue by the Manager. Any subsequent changes to IFRS that are given effect in the Fund's annual financial statements for the year ending December 31, 2014 could result in restatement of these interim financial statements, including the transition adjustments recognized on transition to IFRS.

These financial statements also comply with the requirements of National Instrument 81-106 as it applies to investment funds that are reporting issuers and meet the definition of a mutual fund in the jurisdiction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(a) Classification

The Fund's investments primarily include private mortgage loans but may also include equity instruments, bonds, short-term investments and other investment funds (collectively referred to as "investments"). Other financial instruments include cash and cash equivalents, accrued investment income, subscriptions receivable and redemptions payable, receivables for investments sold, payables for investments purchased, distributions payable and accrued liabilities.

Private mortgage loans are classified as loans and receivables and are measured at amortized cost less a collective allowance (as described below), which approximates fair value due to their short term maturities.

The Fund's investments in equity instruments have been designated as financial assets at fair value through profit and loss ("FVTPL") and are measured at fair value.

The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount, which approximates fair value due to their short-term nature.

All other financial assets are classified as loans and receivables and all other liabilities are classified as other financial liabilities and are measured at amortized cost. Under this method, the assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate.

(b) Recognition, de-recognition and measurement

Purchases and sales of financial assets are recognized on their trade date - the date on which the Fund commits to purchase or sell the investment. Financial assets and liabilities are initially recognized at fair value, excluding transaction costs in the case of financial assets and liabilities at FVTPL. Transaction costs associated with purchases and sales of financial assets and liabilities at FVTPL are expensed as incurred in the statements of comprehensive income.

Financial assets are de-recognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all the risks and rewards of ownership. Upon disposal, the difference between the amount received and the average cost to acquire the financial asset is included within "net realized gain (loss)" in the statements of comprehensive income.

Subsequent to initial recognition, all financial assets and liabilities at FVTPL are measured at fair value. Gains and losses arising from changes in fair value of the financial assets and liabilities at FVTPL category are presented in the statements of comprehensive income within "change in unrealized appreciation (depreciation)" in the period in which they arise.

"Interest for distribution purposes" shown on the statements of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities. Interest receivable is shown separately in the statement of financial position based on the debt instruments' stated rates of interest. Dividends on equity investments and distributions on investments in other investment funds are recognized as income on the ex-dividend date.

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 at the measurement date.

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. If there has been no trade, the mid price (average bid and asking price) as of the close of the business on the reporting date is used to approximate fair value.

Net Asset Value (NAV) and Net Asset Value per unit are terms used to refer to the value of units for unitholder transactions (i.e. for pricing purposes). Net Assets and Net Assets per unit are terms used to describe the value determined solely for the purposes of the financial statements. The Fund's policies for measuring its financial assets and liabilities are similar to those used to calculate it net asset value for unitholder transaction purposes. The Fund's Net Asset Value per unit is determined monthly on the last business day (that is, the last business day on which the Toronto Stock Exchange is open for trading) of each month and such other business day or days as the Manager may in its discretion designate (each, a "Valuation Date"). Accordingly, the Manager does not expect there to be a material difference between the net assets attributable to holders of redeemable units per unit in these financial statements and the net asset value per unit used for transaction purposes. As at June 30, 2014, there was no difference between the net assets attributable to holders of redeemable units in these financial statements and the Net Asset Value per Unit used for transactional purposes.

Impairment of financial assets at amortized cost and collective allowance

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset at amortized cost is 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 instruments 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. As at June 30, 2014, the Fund has not recognized any impairment.

Regarding the measurement of mortgage and loan investments, the manager intends to assess impairment using a combination of (i) specific allowances on impaired mortgages and loans that are individually significant and (ii) on a collective basis using an expected loss model. An expected loss model looks at the following elements and multiplies them together to arrive at the percentage of the carrying value to record as a collective allowance:

- Probability of Default (PD)
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

PD is determined by assessing the credit quality of borrowers and the use of publicly available risk default data for similar mortgage and loan investments. EAD is the estimate of what the outstanding balance will be if the borrower does default at the time of default. LGD is the un-recovered part of EAD if there is a default requiring recovery of collateral or payments under a guarantee.

At least annually, the Manager will estimate a collective allowance attributable to the portfolio based on probabilities of inherent losses that are as yet unidentified. The Fund has recognized a collective allowance on its private mortgage loans. As at June 30, 2014, the Manager has reduced the value of its private mortgage loans plus accrued interest by 0.25%, representing a collective allowance for impairment. The change in collective allowance from December 31, 2013 to June 30, 2014 is reflected in the statements of comprehensive income. There was no collective allowance in 2013.

Foreign currency translation

The Fund's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the reporting date. Foreign exchange gains and losses related to assets and liabilities at amortized cost are recognized in profit and loss and are presented as foreign currency gain (loss) on cash and other net assets on the statements of comprehensive income. Realized foreign exchange gains and losses related to assets and liabilities at FVTPL are recognized when incurred and are presented in the statement of comprehensive income within "net realized gain (loss)".

Unrealized exchange gains or losses on investments are included in "change in unrealized appreciation (depreciation)" in the statements of comprehensive income.

"Foreign exchange gain (loss) on currencies and other net assets" arise from sale of foreign currencies, currency gains or losses realized between trade and settlement dates on securities transactions, and the difference between the recorded amounts of dividend, interest and foreign withholding taxes and the Canadian dollar equivalent of the amounts actually received or paid.

Cash and cash equivalents

The Fund considers highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash is comprised of deposits with financial institutions.

Cost of investments

The cost of investments represents the average cost for each security excluding transaction costs in the case of financial assets at FVTPL.

Expenses

Expenses of the Fund include mortgage administration fees, service fees, management fees and other operating expenses. Such amounts are recorded on an accrual basis and are presented as "accrued expenses" on the statements of financial position.

Mortgage administration fees associated with administering and servicing the underlying mortgage loans have been expenses on the statements of comprehensive income and are recorded on an accrual basis.

Transaction costs associated with investment transactions, including brokerage commissions, have been expensed as incurred on the statements of comprehensive income.

Organizational expenses

In accordance with its offering documents, organizational expenses in the amount of $40,291, which include legal and registration fees associated with the formation of the Fund and applicable taxes, are recoverable by the Manager from the Fund. The Fund is required to re-pay the Manager over three years commencing in 2014.

Increase (decrease) in net assets attributable to holders of redeemable units per unit

"Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit" in the statements of comprehensive income represents the increase (decrease) in Net Assets Attributable to Holders of Redeemable Units per Series, divided by the weighted average units outstanding of that Series during the reporting period.

Distribution to the Unitholders

Distributions will be made to Unitholders only at such times and in such amounts as may be determined in the discretion of the Manager. All distributions by the Fund on Series A Units, Series F Units and Series O Units will be automatically reinvested in additional units of the same Series of the Fund held by the investor at the NAV per unit thereof, unless the investor notifies the Manager in writing that cash distributions are preferred.

Allocation of income and expense, and realized and unrealized gains and losses

Management fees and other costs directly attributable to a series are charged to that series. The Fund's shared operating expenses, income, and realized and unrealized gains and losses are generally allocated proportionately to each series based upon the relative NAV of each Series.

Taxation

The Fund is a unit trust and calculates its taxable income and net capital gains/(losses) in accordance with the *Income Tax Act* (Canada). The Fund has been granted Registered Investment status by the Canada Revenue Agency and as such, is a qualified investment for tax-free savings accounts, registered retirement savings plans, registered retirement income funds and deferred profit-sharing plans. Unit trusts are subject to tax on any income, including net realized capital gains, which is not paid or payable to their unitholders. All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statements of financial position as a deferred income tax asset.

The Fund's tax year end is December 31. As at December 31, 2013, there were no capital losses to carryfoward and there were unused non-capital losses of $79 which expire in 2033.

Future accounting changes – IFRS 9, Financial Instruments

The final version of IFRS 9, Financial instruments, was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however it is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Fund is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates the Fund has made in preparing these financial statements.

Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments under IAS 39, Financial Instruments - Recognition and Measurement, the Manager is required to make significant judgments about whether or not the financial assets and liabilities of the Fund are considered held for trading or that the fair value option can be applied to those that are not. The Manager has concluded that the fair value option can be applied to the Fund's investments that are not considered held for trading. Such investments have been designated at FVTPL.

The Fund holds financial instruments that are not quoted in active markets, including private mortgages loans. The Manager has concluded that these financial instruments are classified as loans and receivables which approximates their fair value due to their short term nature.

5. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's investment activities may be exposed to various financial risks including credit risk, liquidity risk and market risk (which includes currency risk, interest rate risk and price risk). The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's investment objectives and risk tolerance per the Fund's offering documents. All investments result in a risk of loss of capital.

Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

The Fund invests a majority of its assets in private mortgage loans which are subject to credit risk. Any instability in the real estate sector and adverse change in economic conditions in Canada could result in declines in the value of real property securing the Fund's mortgage investments.

The Fund's credit risk management objectives are to:

- establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles; and
- identify, assess and measure credit risk clearly and accurately across the Fund, from the level of individual mortgages or commercial loans up to the total portfolio.

Credit risk is managed by adhering to the investment and operating policies, as set out in its offering documents. This includes the following policies:

- the majority of mortgages are generally expected to be written for terms of 6 to 36 months and supported by commercial liability insurance and by personal or corporate guarantees; and
- mortgages are generally expected to be written for a principal amount at the time of commitment (together with the principal balance outstanding on prior mortgages if applicable), not exceeding 75% of the determined value of the underlying property securing the mortgage.

Such risks are further mitigated by ensuring a comprehensive due diligence process is conducted on each mortgage prior to funding. This process generally includes, but is not limited to, reviewing legal documentation, independent appraisers' valuations and credit checks and financial statement reviews on prospective borrowers.

The maximum exposure to credit risk at June 30, 2014 is the face value of the private mortgage loans plus the accrued interest thereon less the collective allowance, which total $4,392,351 (December 31, 2013 - $1,934,239). The Fund has recourse under the terms of the private mortgage loans in the event of default by the borrower, in which case the Fund would have a claim against the underlying property and security.

The following is a summary of the private mortgage loans held as at June 30, 2014:

	Number of Mortgages	Face Value	Carrying Value
First Mortgages	8	$2,303,258	$2,297,380
Second Mortgages	2	$918,018	$915,635
Third Mortgages	1	$1,060,000	$1,057,253
Total	**11**	**$4,281,276**	**$4,270,268**

The following is a summary of the private mortgage loans held as at December 31, 2013:

	Number of Mortgages	Face Value	Amortized Cost
First Mortgages	5	$1,141,258	$1,141,258
Second Mortgages	1	$200,000	$200,000
Third Mortgages	1	$560,000	$560,000
Total	**7**	**$1,901,258**	**$1,901,258**

The following is a summary of the private mortgage loans held by the Fund segmented by type of project as at June 30, 2014 and December 30, 2013:

	Pre-development	Pre-development/ Construction	Construction	Total
June 30, 2014	$1,159,626	$493,360	$2,617,281	$4,270,268
December 30, 2013	$352,600	$507,658	$1,041,000	$1,901,258

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund's exposure to liquidity risk is concentrated in the cash redemption of its units. The Fund provides investors with the right to redeem units monthly upon 60 days notice in advance of the redemption date, such redemptions to be paid within 30 days following the redemption date.

The Fund makes investments in private mortgage loans that are not traded in an active market. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at amounts which approximate their fair values. In order to maintain liquidity, the Fund may invest in complementary, more liquid, income producing public securities, including real estate income trusts, royalty income trusts, preferred shares, dividend paying equity securities and debt securities including convertibles, corporate and sovereign debt. The Fund has the ability to borrow for the purposes of making investments, providing cover for the writing of options, paying redemptions, working capital purposes and to maintain liquidity in accordance with its investment objective and investment strategies.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Securities included in the Fund may be valued in or have exposure to currencies other than the Canadian dollar, the functional currency of the Fund, and when measured in Canadian dollars, be affected by fluctuations in the value of such currencies relative to the Canadian dollar.

As at June 30, 2014 and December 30, 2013, the Fund did not have significant exposure to currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

This risk is managed by investing in short-term mortgages. As a result the credit characteristics of the Fund's mortgages will evolve such that in periods of higher market interest rates, the Fund's mortgages will be those with narrower credit spreads, and vice versa in periods of lower market interest rates compared to other benchmark rates.

As of June 30, 2014 and December 31, 2013, the Fund's mortgage investments are in fixed rate, short-term mortgages. The Fund generally holds all of its mortgages to maturity. There is no secondary market for the Fund's mortgages and in syndication transactions, these mortgages are generally traded at face value without regard to changes in interest rates.

The following is a summary of the amortized cost of mortgage investments segmented by gross interest rate (before deduction of mortgage administration fees) as at June 30, 2014 and December 30, 2013:

	11% - 11.99$	12% - 12.99%	13% - 13.99%	14% - 14.99%	15% - 15.99%	Total
June 30, 2014	-	$2,088,279	-	$915,635	$1,266,354	$4,270,268
December 30, 2013	$98,000	$833,600	-	$200,000	$769,658	$1,901,258

The following is a summary of the amortized cost of mortgage investments segmented by term as at June 30, 2014 and December 30, 2013:

	12 months or less	13 to 24 months	24 to 36 months	Total
June 30, 2014	$1,673,955	$1,539,060	$1,057,253	$4,270,268
December 30, 2013	$562,258	$681,000	$658,000	$1,901,258

The Fund has had no borrowing to date.

The Fund's accrued interest receivable, dividends receivable, other assets, accounts payable and accrued expenses, distributions payable and due to the Manager have no exposure to interest rate risk.

Price risk

Price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk). The Fund's investments are subject to the risk of changes in the process of equity securities.

As at June 30, 2014 and December 30, 2013, the Fund did not have significant exposure to price risk.

Fair value measurement

The Fund classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs are unobservable for the asset or liability.

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 Fund's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable. Private mortgage loans are not measured at FVTPL therefore are not included in the below summary.

The following is summary of investments by level as at June 30, 2014:

	Level 1	Level 2	Level 3	Total
Equitites - long	$30,506	-	-	$30,506

The following is summary of investments by level as at December 31, 2013:

	Level 1	Level 2	Level 3	Total
Equitites - long	$5,291	-	-	$5,291

There were no significant transfers between levels within the reporting periods above.

6. FINANCIAL INSTRUMENTS BY CATEGORY

The following table presents the carrying amounts of the Fund's financial assets by category as at June 30, 2014. All of the Fund's financial liabilities, other than its net assets attributable to holders of redeemable units, as at June 30, 2014 were carried at amortized cost.

Assets	Financial assets at FVTPL Designated at Inception	Total	Financial assets at Amortized cost	Total
Cash and cash equivalents	-	-	$14,219	$14,219
Subscription receivable	-	-	$398,750	$398,750
Interest receivable	-	-	$122,083	$122,083
Investments	$30,506	$30,506	$4,300,774	$4,331,280
Total	**$30,056**	**$30,056**	**$4,835,826**	**$4,866,332**

The following table presents the carrying amounts of the Fund's financial assets by category as at December 31, 2013. All of the Fund's financial liabilities, other than its net assets attributable to holders of redeemable units, as at December 31, 2013 were carried at amortized cost.

Assets	Financial assets at FVTPL Designated at Inception	Total	Financial assets at Amortized cost	Total
Cash and cash equivalents	-	-	$2,471	$2,471
Subscription receivable	-	-	$31,000	$31,000
Interest receivable	-	-	$32,981	$32,981
Investments	$5,291	$5,291	$1,906,549	$1,906,549
Total	**$5,291**	**$5,291**	**$1,973,001**	**$1,973,001**

The Fund recorded a net gain of $399 on financial assets at FVTPL for the period ended June 30, 2014 (nil - December 31, 2013).

7. REDEEMABLE UNITS

The Fund is permitted to have an unlimited number of series of units, having such terms and conditions as the Manager may determine. Additional series may be offered in future on different terms, including different fee and dealer compensation terms and different minimum subscription levels. Each unit of a series represents an undivided ownership interest in the net assets of the Fund attributable to that series of units.

The Fund endeavors to invest capital in appropriate investments in conjunction with their investment objectives. The Fund maintains sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments, where necessary.

The Fund is available under offering memorandum and other exemptions to investors who meet certain eligibility or minimum purchase requirements such as "accredited investors" as defined in National Instrument 45-106 - *Prospectus and Registration Exemptions*.

Units of the Fund are available in multiple series as outlined below. The principal difference between the series of units relates to the management fee payable to the Manager, the compensation paid to dealers, distributions and the expenses payable by the series. All units are entitled to participate in a Fund's assets on liquidation on a series basis. Units are issued as fully paid and non-assessable and are redeemable at their NAV on a monthly basis upon 60 day's notice to the Manager.

Series A Units are available to all investors who meet the eligibility requirements.

Series F Units are available to investors who meet the eligibility requirements and who participate in fee-based programs through their dealer and whose dealer has signed a Series F Agreement with the Manager, investors for whom the Fund do not incur distribution costs, or individual investors approved by the Manager.

Series O Units are available to certain institutional or other investors.

Unitholders may redeem their Units on any Valuation Date by submitting a request for redemption no later than the day that is 60 days prior to the Valuation Date in order for the redemption to be accepted as at that Valuation Date; otherwise the redemption will be processed as at the next Valuation Date. The redemption price shall equal the net asset value per unit of the applicable series of units being redeemed, determined as of the close of business on the relevant Valuation Date.

The number of units issued and outstanding for the period ended June 30, 2014 was as follows:

	Balance Beginning of Period	Units Issued	Units Reinvested	Units Redeemed	Balance End of Period
Series A Units	9,179	8,893	554	-	18,626
Series F Units	27,252	41,327	1,542	-	70,121
Series O Units	2,232	3,885	150	(367)	5,900

The number of units issued and outstanding for the period ended December 31, 2013 was as follows:

	Balance Beginning of Period	Units Issued	Units Reinvested	Units Redeemed	Balance End of Period
Series A Units	-	8,882	297	-	9,179
Series F Units	-	26,211	1,041	-	27,252
Series O Units	-	2,194	38	-	2,232

8. MANAGEMENT FEES AND EXPENSES

Pursuant to the Fund's prospectus, the Fund agrees to pay management fees to the Manager, calculated and accrued daily and paid monthly. The annual management fee rate for Series A and Series F Units is 0.5%. Management fees on Series O Units are negotiated and are charged to the investors in Series O Units, not the Fund. The Fund is also charged a service fee calculated and accrued on each Valuation Date on Series A Units of 1.0% and paid monthly. The Manager distributes the service fee to advisors as a trailing commission.

In addition, the Manager will be reimbursed for any operating expenses it incurs on behalf of the Fund, including regulatory filing fees, custodian fees, legal and audit fees, costs associated with the Independent Review Committee, bank charges, the cost of financial reporting, and all related sales taxes. GST and HST paid by the Fund on its expenses is not recoverable. The Manager also provides key management personnel to the Fund.

The Manager may charge the Fund for actual time spent by its personnel (or those of its affiliates) in overseeing the day-to-day business affairs of the Fund. The amount charged for time spent by personnel is determined based on fully allocated costs and does not include a mark up or administration fee. The Manager has absorbed $36,384 (net of applicable taxes) of Fund operating expenses for the period ending June 30, 2014 (June 30, 2013 - $27,019).The Manager may absorb future fund operating expenses at its discretion but is under no obligation to do so.

The Fund is responsible for, and the Manager is entitled to reimbursement from the Fund for all costs associated with the creation and organization of the Fund. Organizational expenses in the amount of $40,291 (including applicable taxes) will be charged to the Fund over a period of three years, on a pro rata basis commencing January 1, 2014. For the period ended June 30, 2014 $6,751 (including applicable taxes) was expensed on the statements of comprehensive income.

9. SOFT DOLLARS

A portion of the brokerage commissions (referred to as "soft dollars") paid by the Fund on securities purchases and sales to dealers (generally "full service" dealers) represents fees for goods and services, in the form of proprietary research, provided to the Manager by the dealer which are in addition to order execution services. The Manager may choose to affect portfolio transactions with dealers who provide research, statistical and other similar services to the Fund or to the Manager at prices which reflect such services. The Manager may direct trades to a dealer in exchange for 'in-house' proprietary research. The dealers do not provide the Manager with an estimate of the cost of the research, statistical and other similar services.

10. RELATED PARTY TRANSACTIONS

The following table outlines the management fees and operating expense reimbursements that were paid to the Manager by the Fund during the periods ended June 30, 2014 and June 30, 2013. The table includes amount of operating expense reimbursement that was paid to affiliates of the Manager and the amount of additional absorbed operating expenses that the Manager chose not to charge to the Fund. All of the dollar amounts in the table below exclude applicable GST or HST.

	Management Fees	Operating Expense Reimbursement (net of absorbed amounts)	Service Fees	Absorbed Operating Expenses	Operating Expenses Reimbursed to Affiliates of the Manager
June 30, 2014	$6,716	$7,114	$3,538	$30,292	$2,474
June 30, 2013	$1,273	$637	$557	$27,700	$264

11. EXEMPTION FROM FILING

The Fund is relying on the exemption obtained in National Instrument 81-106, Part 2.11 to not file its financial statements on SEDAR.

12. TRANSITION TO IFRS

The effect of the Fund's transition to IFRS is summarized as follows:

Transition elections

The only voluntary election adopted by the Fund upon transition was the ability to designate a financial asset or liability at FVTPL. Such financial assets were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies.

Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Equity	December 31, 2013	June 30, 2013
Equity as reported under Canadian GAAP	$1,968,967	$787,668
Revaluation of investments at FVTPL	$3	-
Net assets attributable to holders of redeemable units	**$1,968,970**	**$787,668**

Comprehensive Income	Period ended June 30, 2013	Period ended December 31, 2013
Comprehensive income as reported under Canadian GAAP	($21,743)	$78,517
Revaluation of investments at FVTPL	-	$3
Increase (decrease) in net assets attributable to holders of redeemable units	**($21,743)**	**$78,521**

Classification of redeemable units issued by the Fund

Under Canadian GAAP, the Fund accounted for its redeemable units as equity. Under IFRS, IAS 32 requires that units of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Fund's units do not meet the criteria in IAS 32 for classification as equity because of the Fund's multi-class structure and therefore, have been reclassified as financial liabilities on transition to IFRS.

Revaluation of investments at FVTPL

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, Financial Instruments - Recognition and Measurement, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Fund measures the fair values of its investment using the guidance in IFRS 13, Fair Value Measurement (IFRS 13), which requires that if an asset or a liability has a bid price and an ask price, then its fair value is to based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value adjustments within a bid-ask spread. As a result, upon adoption of IFRS, there was no adjustment to the Fund's increase (decrease) in net assets attributable to holders of redeemable units for the period ending June 30, 2013.

Reclassification adjustments

Under Canadian GAAP, withholding taxes were presented as a reduction of income. Under IFRS, withholding taxes are treated as an expense on the statements of comprehensiive income. This reclassification changes the amount of income and expense previously reported but does not impact the net increase/decrease in net assets attributable to holders of redeemable units or net assets attributable to holders of redeemable units per unit.

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