

Picton Mahoney Fortified Arbitrage Alternative Fund

Semi-Annual Financial Statements
June 30, 2020 (Unaudited)

Picton Mahoney Fortified Arbitrage Alternative Fund

Statements of Financial Position

As at

| | June 30, 2020 (Unaudited) | December 31, 2019 |
|---|------------------------------|-----------------------|
| Assets | | |
| Current assets | | |
| Investments | \$ 247,353,222 | \$ 137,783,219 |
| Investments, pledged as collateral | 9,257,189 | 54,672,550 |
| Cash | 8,235,867 | 31,258,071 |
| Cash, pledged as collateral | 62,564,050 | 24,845,053 |
| Other receivable | - | 26,944 |
| Due from broker | 2,539,693 | 582,469 |
| Accrued interest | 259,700 | - |
| Dividend receivable | 122,564 | 130,812 |
| Subscriptions receivable | 505,580 | 6,648,385 |
| Derivative financial instruments | | |
| Forward contracts | 5,840,000 | 2,059,045 |
| Options | 1,075,853 | 146,674 |
| | <u>337,753,718</u> | <u>258,153,222</u> |
| Liabilities | | |
| Current liabilities | | |
| Securities sold short | \$ 42,917,121 | \$ 27,670,141 |
| Management fees payable (Note 9) | 36,415 | 25,840 |
| Accrued performance fees (Note 9) | 193,533 | 58,805 |
| Dividends payable on securities sold short | - | 44,556 |
| Margin borrowings (Note 3) | - | 12,048,571 |
| Redemptions payable | 49,247 | 7,933,840 |
| Accounts payable and accrued liabilities | 16,646 | 12,858 |
| Due to broker | 464,223 | 1,337,199 |
| Derivative financial instruments | | |
| Forward contracts | 9,644 | - |
| Written Options | 81,735 | 381,220 |
| | <u>43,768,564</u> | <u>49,513,030</u> |
| Net Assets attributable to holders of redeemable units | <u>\$ 293,985,154</u> | <u>\$ 208,640,192</u> |
| Net Assets attributable to holders of redeemable units per Class | | |
| Class A | \$ 3,217,064 | \$ 3,168,006 |
| Class F | \$ 36,346,118 | \$ 29,678,363 |
| Class I | <u>\$ 254,421,972</u> | <u>\$ 175,793,823</u> |
| Net Assets attributable to holders of redeemable units per unit | | |
| Class A | \$ 10.46 | \$ 10.11 |
| Class F | \$ 10.59 | \$ 10.18 |
| Class I | <u>\$ 10.85</u> | <u>\$ 10.30</u> |

Approved on behalf of the Manager

"Signed" _____

David Picton
President

"Signed" _____

Arthur Galloway
CFO

Picton Mahoney Fortified Arbitrage Alternative Fund

Statements of Comprehensive Income

For the six month period ended June 30, 2020 and the period from January 17, 2019 (commencement of operations) to June 30, 2019 (Unaudited)

| | 2020 | 2019 |
|--|-------------------|----------------|
| Investment income | | |
| Foreign exchange gain on cash | \$ 169,421 | 34,075 |
| Change in unrealized foreign exchange loss on cash | \$ (82,657) | (710) |
| Net gain (loss) on investments and derivatives | | |
| Dividends | 924,407 | 96,427 |
| Dividends, paid on shorts | (404,265) | (87,091) |
| Interest for distribution purposes | 236,698 | 121,850 |
| Net realized gain on investments and derivatives | 323,019 | 1,175,476 |
| Net change in unrealized appreciation (depreciation) on investments and derivatives | 13,248,112 | (695,392) |
| Net gains/losses on financial instruments at fair value through profit or loss | 14,414,735 | 644,635 |
| Expenses (Note 9) | | |
| Management fees | 207,646 | 40,464 |
| Securities borrowing fees | 49,143 | 11,191 |
| Performance fees | 280,874 | 13,157 |
| Securityholder reporting costs | 49,631 | - |
| Other administrative expenses | 46,170 | 68,860 |
| Audit fees | 51,105 | - |
| Custody fees | 17,587 | - |
| Legal fees | 36,022 | - |
| Trustee fees | 2,295 | - |
| IRC fees | 3,955 | - |
| Interest expense | 21 | - |
| Transaction costs (Note 3) | 342,952 | 71,683 |
| Withholding tax | 88,752 | 15,502 |
| Total Expenses | 1,176,153 | 220,857 |
| Net investment income (loss) before absorbed expenses | 13,238,582 | 423,778 |
| Expenses absorbed by manager (Note 9) | - | 67,832 |
| Increase in net assets attributable to holders of redeemable units | 13,238,582 | 491,610 |
| Increase in net assets attributable to holders of redeemable units per Class | | |
| Class A | \$ 102,526 | \$ (574) |
| Class F | \$ 1,296,781 | \$ 32,042 |
| Class I | \$ 11,839,275 | \$ 460,142 |
| Increase in net assets attributable to holders of redeemable units per Class per unit | | |
| Class A | \$ 0.33 | \$ (0.01) |
| Class F | \$ 0.42 | \$ 0.05 |
| Class I | \$ 0.57 | \$ 0.09 |

(See accompanying notes to the financial statements.)

Picton Mahoney Fortified Arbitrage Alternative Fund

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

For the six month period ended June 30, 2020 and the period from January 17, 2019 (commencement of operations) to June 30, 2019 (Unaudited)

| | Class A | | Class F | |
|--|---------------------|---------------------|----------------------|----------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net assets attributable to holders of redeemable units, beginning of period | \$ 3,168,006 | \$ - | \$ 29,678,363 | \$ - |
| Increase in net assets attributable to holders of redeemable units | 102,526 | (574) | 1,296,781 | 32,042 |
| Capital transactions (Note 8) | | | | |
| Proceeds from issuance of redeemable units | 605,767 | 1,945,369 | 14,952,562 | 16,462,426 |
| Redemption of redeemable units | (659,235) | (10,944) | (9,581,588) | (1,346,585) |
| | <u>(53,468)</u> | <u>1,934,425</u> | <u>5,370,974</u> | <u>15,115,841</u> |
| Net Assets attributable to holders of redeemable units, end of period | \$ 3,217,064 | \$ 1,933,851 | \$ 36,346,118 | \$ 15,147,883 |

| | Class I | | Total | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net assets attributable to holders of redeemable units, beginning of period | \$ 175,793,823 | \$ - | \$ 208,640,192 | \$ - |
| Increase in net assets attributable to holders of redeemable units | 11,839,275 | 460,142 | 13,238,582 | 491,610 |
| Capital transactions (Note 8) | | | | |
| Proceeds from issuance of redeemable units | 112,650,000 | 111,260,593 | 128,208,329 | 129,668,388 |
| Redemption of redeemable units | (45,861,126) | (10) | (56,101,949) | (1,357,539) |
| | <u>66,788,874</u> | <u>111,260,583</u> | <u>72,106,380</u> | <u>128,310,849</u> |
| Net Assets attributable to holders of redeemable units, end of period | \$ 254,421,972 | \$ 111,720,725 | \$ 293,985,154 | \$ 128,802,459 |

(See accompanying notes to the financial statements.)

Picton Mahoney Fortified Arbitrage Alternative Fund

Statements of Cash Flows

For the six month period ended June 30, 2020 and the period from January 17, 2019 (commencement of operations) to June 30, 2019 (Unaudited)

| | 2020 | 2019 |
|---|----------------------|----------------------|
| Operating activities | | |
| Increase in net assets attributable to holders of redeemable units | \$ 13,238,582 | 491,610 |
| Adjustment for non-cash items: | | |
| Net change in unrealized appreciation (depreciation) on investments and derivatives | (13,248,112) | 694,536 |
| Net realized gain on investments and derivatives | (323,019) | (1,175,476) |
| Change in unrealized foreign exchange (gain) loss on cash | 82,657 | 710 |
| | <u>(249,892)</u> | <u>11,380</u> |
| Changes in operating assets and liabilities: | | |
| Increase in accrued interest | (259,700) | (26,163) |
| Decrease (Increase) in dividends receivable | 8,248 | (8,679) |
| Decrease in other receivable | 26,944 | - |
| Increase in accounts payable and accrued liabilities | 3,788 | - |
| Increase in management fee payable | 10,576 | 14,472 |
| Decrease (Increase) in dividends payable on securities sold short | (44,556) | 12,189 |
| Increase in accrued performance fees | 134,728 | 9,216 |
| | <u>(119,973)</u> | <u>1,035</u> |
| Proceeds on disposition of investments and derivatives, including proceeds received on shorts | 425,932,100 | 88,458,815 |
| Purchase of investments and derivatives, including cover for shorts | (469,098,806) | (159,871,651) |
| | <u>(43,166,706)</u> | <u>(71,412,836)</u> |
| Net cash used in operating activities | <u>(43,536,571)</u> | <u>(71,400,421)</u> |
| Financing activities | | |
| Proceeds from issuance of redeemable units ** | 134,351,134 | 124,683,719 |
| Redemption of redeemable units ** | (63,986,542) | (1,286,226) |
| Decrease in margin borrowings | (12,048,571) | - |
| Net cash from financing activities | <u>58,316,021</u> | <u>123,397,493</u> |
| Increase in Cash | <u>14,779,450</u> | <u>51,997,072</u> |
| Change in unrealized foreign exchange gain (loss) on cash | <u>(82,657)</u> | <u>(710)</u> |
| Cash, Beginning of the period | <u>56,103,124</u> | <u>-</u> |
| Cash, End of the period | <u>\$ 70,799,917</u> | <u>\$ 51,996,362</u> |
| Reconciliation of Cash, End of the period to the Statement of Financial Position | | |
| Cash | 8,235,867 | 51,996,362 |
| Cash, pledged as collateral | 62,564,050 | - |
| Cash, End of the period | <u>\$ 70,799,917</u> | <u>\$ 51,996,362</u> |
| Supplemental Information | | |
| Cash paid for interest | 21 | - |
| Cash dividend paid on short positions | 448,821 | 74,902 |
| Cash received from interest | (23,002) | 95,687 |
| Cash received from dividends, net of withholding taxes | 843,903 | 72,246 |

The amounts of proceeds and redemptions exclude non cash items such as switches and exchanges between classes for the period ended June 30, 2020 amounting to

** \$nil (June 30, 2019 - \$nil).

Picton Mahoney Fortified Arbitrage Alternative Fund

Schedule of Investment Portfolio

As at June 30, 2020 (unaudited)

| Number of Shares/ Par Value | Description | Coupon Rate % | Maturity / Call Date | Average Cost \$ | Fair Value \$ | % of Total |
|-----------------------------------|--|---------------------|-------------------------|-----------------------|---------------------|---------------|
| BONDS | | | | | | |
| Foreign Bonds | | | | | | |
| United Kingdom | | | | | | |
| 3,362,300 | Delphi Jersey Holdings PLC | 5.000% | 01-Oct-25 | 4,365,198 | 4,910,660 | |
| | Total United Kingdom | | | 4,365,198 | 4,910,660 | 1.67 |
| United States of America | | | | | | |
| 3,515,000 | Advanced Disposal Services Inc., Callable | 5.625% | 15-Nov-24 | 5,098,868 | 4,968,307 | |
| 2,920,000 | Cincinnati Bell Inc., Callable | 7.000% | 15-Jul-24 | 4,165,901 | 4,055,824 | |
| 1,761,500 | Cincinnati Bell Inc., Callable | 8.000% | 15-Oct-25 | 2,525,271 | 2,504,753 | |
| | Total United States of America | | | 11,790,040 | 11,528,884 | 3.92 |
| | Total Foreign Bonds | | | 16,155,238 | 16,439,544 | 5.59 |
| | TOTAL BONDS | | | 16,155,238 | 16,439,544 | 5.59 |
| STOCKS | | | | | | |
| MATERIALS | | | | | | |
| 586,700 | Alacer Gold Corp. | | | 4,797,268 | 5,473,911 | |
| | TOTAL MATERIALS | | | 4,797,268 | 5,473,911 | 1.86 |
| CONSUMER DISCRETIONARY | | | | | | |
| 28,231 | BorgWarner Inc. | | | 1,107,230 | 1,352,922 | |
| 139,300 | Caesars Entertainment Corp. | | | 1,916,234 | 2,293,949 | |
| 317,400 | CC Neuberger Principal Holdings I | | | 4,473,326 | 4,567,564 | |
| 76,700 | Cineplex Inc. | | | 1,049,121 | 616,668 | |
| 175,300 | Galileo Acquisition Corp., Warrants, (31Oct26) | | | 3,499 | 138,033 | |
| 175,300 | Galileo Acquisition Corp. | | | 2,331,951 | 2,358,454 | |
| | TOTAL CONSUMER DISCRETIONARY | | | 10,881,361 | 11,327,590 | 3.85 |
| FINANCIALS | | | | | | |
| 48,500 | Alberton Acquisition Corp., Warrants, (21Nov23) | | | 2,023 | 17,119 | |
| 169,300 | Alussa Energy Acquisition Corp., Class 'A' | | | 2,262,061 | 2,263,941 | |
| 84,600 | Alussa Energy Acquisition Corp., Class 'A', Warrants, (31Oct26) | | | 23,576 | 63,169 | |
| 144,000 | AMCI Acquisition Corp., Class 'A' | | | 1,982,189 | 1,997,953 | |
| 144,000 | AMCI Acquisition Corp., Class 'A', Warrants, (20Nov25) | | | 6,637 | 107,522 | |
| 158,700 | Amplitude Healthcare Acquisition Corp. | | | 2,113,076 | 2,208,374 | |
| 79,300 | Amplitude Healthcare Acquisition Corp., Warrants, (12Jan26) | | | 21,472 | 107,658 | |
| 265,200 | Andina Acquisition Corp. III | | | 1,228,272 | 1,310,517 | |
| 105,800 | Apex Technology Acquisition Corp., Class 'A' | | | 1,424,385 | 1,472,249 | |
| 42,280 | Apex Technology Acquisition Corp., Class 'A', Warrants, (30Sept26) | | | 15,844 | 97,579 | |
| 48,700 | B. Riley Principal Merger Corp. II | | | 678,484 | 774,208 | |
| 127,300 | Bespoke Capital Acquisition Corp., Class 'A' | | | 1,689,781 | 1,688,476 | |
| 63,000 | Bespoke Capital Acquisition Corp., Class 'A', Warrants, (16Aug27) | | | 24,738 | 45,330 | |
| 35,021 | Big Rock Partners Acquisition Corp. | | | 495,686 | 499,217 | |
| 20,400 | Big Rock Partners Acquisition Corp., Warrants, (01Dec22) | | | 5,289 | 12,463 | |
| 90,600 | Canaccord Genuity Growth II Corp., Class 'A' | | | 273,320 | 279,954 | |
| 52,900 | Ceres Acquisition Corp., Class 'A' | | | 699,033 | 678,671 | |
| 26,400 | Ceres Acquisition Corp., Class 'A', Warrants, (13Apr25) | | | 374 | 11,559 | |
| 92,300 | CF Finance Acquisition Corp., Class 'A' | | | 1,293,650 | 1,359,575 | |
| 48,075 | CF Finance Acquisition Corp., Class 'A', Warrants, (30Apr25) | | | 13,086 | 88,110 | |
| 105,600 | Chardan Healthcare Acquisition 2 Corp. | | | 1,488,274 | 1,505,307 | |
| 169,300 | CHP Merger Corp., Class 'A' | | | 2,271,692 | 2,289,223 | |
| 459,724 | Churchill Capital Corp II, Class 'A' | | | 6,463,707 | 7,052,571 | |
| 21,308 | Churchill Capital Corp. II, Class 'A', Warrants, (24Sep24) | | | 16,319 | 83,601 | |
| 104,700 | Churchill Capital Corp. III | | | 1,478,738 | 1,548,594 | |
| 122,800 | CIIG Merger Corp., Class 'A' | | | 1,643,195 | 1,650,461 | |
| 61,400 | CIIG Merger Corp., Class 'A', Warrants, (31Dec26) | | | - | 79,189 | |
| 27,899 | Collier Creek Holdings, Class 'A' | | | 407,362 | 518,897 | |
| 31,099 | Collier Creek Holdings, Warrants, (26Nov23) | | | 20,389 | 137,215 | |
| 52,900 | Crescent Acquisition Corp., Class 'A' | | | 724,065 | 751,206 | |
| 81,800 | DFP Healthcare Acquisitions Corp., Class 'A' | | | 1,136,590 | 1,116,069 | |
| 20,450 | DFP Healthcare Acquisitions Corp., Class 'A', (01Apr22) | | | - | 40,811 | |
| 85,355 | E*TRADE Financial Corp. | | | 4,678,783 | 5,762,610 | |
| 169,300 | Experience Investment Corp. | | | 2,277,263 | 2,291,522 | |
| 56,432 | Experience Investment Corp., Warrants, (01Sep26) | | | 2,175 | 76,612 | |
| 43,507 | Far Point Acquisition Corp., Warrants, (01Jun25) | | | 18,672 | 29,533 | |
| 169,300 | FinServ Acquisition Corp., Class 'A' | | | 2,278,624 | 2,286,925 | |
| 84,600 | FinServ Acquisition Corp., Class 'A', Warrants, (31Dec26) | | | 3,752 | 128,635 | |
| 127,000 | Flying Eagle Acquisition Corp. | | | 1,727,375 | 2,008,637 | |
| 423,200 | Foley Trasimene Acquisition Corp. | | | 5,888,442 | 6,130,303 | |

Picton Mahoney Fortified Arbitrage Alternative Fund

Schedule of Investments Portfolio

As at June 30, 2020 (unaudited) (continued)

| Number of Shares/ Par Value | Description | Average Cost \$ | Fair Value \$ | % of Total |
|-----------------------------------|---|-----------------------|---------------------|---------------|
| 148,100 | Fortress Value Acquisition Corp. | 2,061,491 | 2,070,924 | |
| 85,000 | Fusion Acquisition Corp. | 1,161,738 | 1,172,423 | |
| 93,100 | Gigcapital2 Inc. | 1,270,207 | 1,281,621 | |
| 93,100 | Gigcapital2 Inc., Rights | 1,257 | 34,113 | |
| 93,100 | Gigcapital2 Inc., Warrants, (01Jul24) | 1,903 | 62,559 | |
| 81,800 | Gores Holdings IV Inc., Class 'A' | 1,098,677 | 1,121,622 | |
| 20,450 | Gores Holdings IV Inc., Class 'A', Warrants, (24Jan25) | - | 49,973 | |
| 190,399 | Gores Metropoulos Inc., Class 'A' | 2,707,910 | 2,763,212 | |
| 21,099 | Gores Metropoulos Inc., Class 'A', Warrants, (25Mar24) | 1,727 | 55,856 | |
| 21,800 | Graf Industrial Corp., Warrants, (31Dec25) | 2,217 | 67,478 | |
| 42,300 | Greenrose Acquisition Corp. | 565,454 | 574,265 | |
| 127,000 | GX Acquisition Corp., Class 'A' | 1,736,065 | 1,758,635 | |
| 63,400 | Gx Acquisition Corp., Class 'A', Warrants, (24May26) | 2,674 | 98,122 | |
| 296,298 | Haymaker Acquisition Corp II, Class 'A' | 4,046,280 | 4,163,331 | |
| 42,299 | Haymaker Acquisition Corp. II, Class 'A', Warrants, (31Oct26) | 2,739 | 90,157 | |
| 147,700 | Healthcare Merger Corp., Class 'A' | 2,017,290 | 2,009,186 | |
| 73,900 | Healthcare Merger Corp., Class 'A', Warrants, (17Dec21) | 3,240 | 115,376 | |
| 133,500 | Hennessy Capital Acquisition Corp. IV, Class 'A' | 1,867,371 | 1,948,326 | |
| 52,900 | Hennessy Capital Acquisition Corp. IV, Class 'A', Warrants, (25Sep25) | 1,887 | 78,999 | |
| 275,000 | Hudson Executive Investment Corp. | 3,686,834 | 3,808,068 | |
| 42,300 | Hycroft Mining Holding Corp., Warrants, (29May25) | 10,965 | 71,783 | |
| 94,300 | International General Insurance Holdings Ltd., Warrants, (13Mar25) | 18,942 | 43,527 | |
| 211,600 | Jaws Acquisition Corp. | 2,997,002 | 2,996,207 | |
| 169,300 | Juniper Industrial Holdings Inc., Class 'A' | 2,288,284 | 2,291,522 | |
| 84,600 | Juniper Industrial Holdings Inc., Class 'A', Warrants, (13Nov26) | 2,964 | 99,922 | |
| 191,300 | Kensington Capital Acquisition Corp. | 2,614,593 | 2,602,283 | |
| 63,397 | Landecadia Holdings II Inc., Class 'A' | 857,519 | 1,407,208 | |
| 28,165 | Landecadia Holdings II Inc., Class 'A', Warrants, (09May26) | 1,104 | 206,479 | |
| 68,000 | Legg Mason Inc. | 4,660,080 | 4,592,761 | |
| 409,800 | Leo Holdings Corp., Class 'A' | 5,821,412 | 5,785,983 | |
| 59,300 | Leo Holdings Corp., Class 'A', Warrants, (05Apr23) | 35,988 | 100,632 | |
| 112,000 | LF Capital Acquisition Corp., Class 'A' | 1,576,226 | 1,626,948 | |
| 111,800 | LF Capital Acquisition Corp., Class 'A', Warrants, (27Jun23) | 3,385 | 136,602 | |
| 116,400 | LGL Systems Acquisition Corp., Class 'A' | 1,566,279 | 1,566,830 | |
| 58,200 | LGL Systems Acquisition Corp., Class 'A', Warrants, (12Nov26) | 1,737 | 71,901 | |
| 10,600 | Lifesci Acquisition Corp. | 145,759 | 152,900 | |
| 74,000 | Liv Capital Acquisition Corp. | 988,708 | 1,029,740 | |
| 317,400 | Longview Acquisition Corp. | 4,380,548 | 4,352,113 | |
| 439,483 | Mercer Park Brand Acquisition Corp., Class 'A' | 5,877,479 | 5,918,690 | |
| 188,266 | Mercer Park Brand Acquisition Corp., Class 'A', Warrants, (24Jun24) | 111,975 | 166,133 | |
| 285,600 | Merida Merger Corp. I | 3,723,028 | 3,795,882 | |
| 100,600 | Merida Merger Corp. I, Warrants, (07Nov26) | 71,938 | 68,287 | |
| 127,000 | Monocle Acquisition Corp. | 1,744,057 | 1,774,152 | |
| 127,000 | Monocle Acquisition Corp., Warrants, (12Jun24) | 27,255 | 112,070 | |
| 270,200 | Netfin Acquisition Corp., Class 'A' | 3,683,785 | 3,943,353 | |
| 127,000 | Netfin Acquisition Corp., Class 'A', Warrants, (01Aug24) | 2,694 | 281,037 | |
| 105,800 | New Providence Acquisition Corp., Class 'A' | 1,437,113 | 1,447,832 | |
| 52,900 | New Providence Acquisition Corp., Class 'A', Warrants, (01Sep24) | 1,552 | 71,817 | |
| 354,900 | Northview Apartment REIT | 12,247,962 | 12,343,421 | |
| 148,099 | Oaktree Acquisition Corp., Class 'A' | 2,027,634 | 2,044,772 | |
| 211,500 | Osprey Technology Acquisition Corp., Class 'A' | 2,828,150 | 2,884,245 | |
| 105,700 | Osprey Technology Acquisition Corp., Class 'A', Warrants, (30Oct24) | 4,407 | 150,673 | |
| 127,000 | Pivotal Investment Corp. II, Class 'A' | 1,702,746 | 1,750,014 | |
| 42,299 | Pivotal Investment Corp. II, Class 'A', Warrants, (01Jun25) | 1,213 | 45,366 | |
| 63,400 | PropTech Acquisition Corp., Class 'A' | 858,873 | 869,326 | |
| 31,700 | PropTech Acquisition Corp., Class 'A', Warrants, (01Oct26) | 955 | 30,125 | |
| 141,698 | RMG Acquisition Corp., Class 'A' | 1,925,449 | 1,967,937 | |
| 47,166 | RMG Acquisition Corp., Class 'A', Warrants, (21Feb26) | 1,200 | 62,752 | |
| 64,800 | SC Health Corp., Class 'A' | 874,727 | 889,402 | |
| 19,650 | SC Health Corp., Warrants, (21Aug24) | 859 | 28,811 | |
| 143,300 | Silver Spike Acquisition Corp., Class 'A' | 1,927,385 | 1,970,984 | |
| 71,650 | Silver Spike Acquisition Corp., Class 'A', Warrants, (31Dec24) | - | 48,636 | |
| 105,600 | Social Capital Hedosophia Holdings Corp. II, Class 'A' | 1,477,555 | 1,684,510 | |
| 105,600 | Social Capital Hedosophia Holdings Corp. II, Class 'A', Warrants, (31Dec25) | - | 459,716 | |
| 211,200 | Social Capital Hedosophia Holdings Corp. III, Class 'A' | 3,008,633 | 3,205,587 | |
| 102,300 | Software Acquisition Group Inc. | 1,369,897 | 1,451,322 | |
| 61,400 | South Mountain Merger Corp., Class 'A' | 832,034 | 849,404 | |
| 30,700 | South Mountain Merger Corp., Class 'A', Warrants, (20Jun24) | - | 46,680 | |
| 184,847 | Spartan Energy Acquisition Corp., Class 'A' | 2,550,026 | 2,690,166 | |
| 47,967 | Spartan Energy Acquisition Corp., Class 'A', Warrants, (01Oct23) | - | 117,209 | |
| 306,900 | Stable Road Acquisition Corp., Class 'A' | 4,135,048 | 4,145,642 | |
| 153,450 | Stable Road Acquisition Corp., Warrants, (15May26) | - | 127,077 | |
| 458,000 | Subversive Capital Acquisition Corp., Class 'A' | 5,933,312 | 6,186,718 | |

Picton Mahoney Fortified Arbitrage Alternative Fund

Schedule of Investments Portfolio

As at June 30, 2020 (unaudited) (continued)

| Number of Shares/ Par Value | Description | Average Cost \$ | Fair Value \$ | % of Total |
|-----------------------------------|---|-----------------------|---------------------|----------------|
| 207,750 | Subversive Capital Acquisition Corp., Warrants, (26Aug24) | 191,008 | 169,225 | |
| 84,600 | Subversive Real Estate Acquisition REIT L.P., Rights | 19,552 | 57,426 | |
| 84,600 | Subversive Real Estate Acquisition REIT L.P. | 1,112,229 | 1,125,559 | |
| 166,441 | Sustainable Opportunities Acquisition Corp. | 2,353,940 | 2,282,199 | |
| 92,868 | TD Ameritrade Holding Corp. | 5,269,794 | 4,586,703 | |
| 84,600 | Thunder Bridge Acquisition II Ltd. | 1,155,450 | 1,205,956 | |
| 17,800 | Tortoise Acquisition Corp. | 239,548 | 773,289 | |
| 211,700 | Trebia Acquisition Corp. | 2,906,336 | 3,003,371 | |
| 49,600 | Trident Acquisitions Corp., Warrants, (13Jun21) | 873 | 30,975 | |
| 127,000 | Trine Acquisition Corp. | 1,746,439 | 1,900,016 | |
| 181,400 | Tuscan Holdings Corp. | 2,542,746 | 2,519,328 | |
| 63,400 | Union Acquisition Corp. II | 846,862 | 880,085 | |
| 33,800 | Willis Towers Watson PLC | 9,398,870 | 9,037,420 | |
| | TOTAL FINANCIALS | 188,414,497 | 197,817,481 | 67.29 |
| | HEALTH CARE | | | |
| 63,800 | QIAGEN NV. | 3,679,537 | 3,707,983 | |
| 132,892 | Wright Medical Group NV. | 5,296,223 | 5,361,909 | |
| | TOTAL HEALTH CARE | 8,975,760 | 9,069,892 | 3.09 |
| | INFORMATION TECHNOLOGY | | | |
| 25,500 | LogMeIn Inc. | 2,954,585 | 2,934,636 | |
| | TOTAL INFORMATION TECHNOLOGY | 2,954,585 | 2,934,636 | 1.00 |
| | UTILITIES | | | |
| 41,700 | Brookfield Renewable Partners L.P. | 2,894,515 | 2,710,500 | |
| 10,600 | El Paso Electric Co. | 957,619 | 964,168 | |
| 394,369 | TerraForm Power Inc., Class 'A' | 9,401,731 | 9,872,689 | |
| | TOTAL UTILITIES | 13,253,865 | 13,547,357 | 4.61 |
| | TOTAL STOCKS | 229,277,336 | 240,170,867 | 81.70 |
| | TOTAL INVESTMENTS | 245,432,574 | 256,610,411 | 87.29 |
| | OPTIONS | | | |
| | Put Options | | | |
| 417 | Brookfield Renewable Partners L.P. October 2020, \$90.00 CAD | 959,517 | 1,072,733 | |
| 208 | Northview Apartment REIT July 2020, \$32.00 CAD | 9,516 | 3,120 | |
| | Total Put Options | 969,033 | 1,075,853 | 0.37 |
| | TOTAL OPTIONS | 969,033 | 1,075,853 | 0.37 |
| | TOTAL LONG | 246,401,607 | 257,686,264 | 87.66 |
| | TOTAL SHORT (Schedule 1) | (41,802,162) | (42,998,856) | (14.63) |
| | FORWARD CONTRACTS | | | |
| | Buy CAD 3,773,389, Sell EUR 2,453,000 @ 1.53828 - Aug 06, 2020 | - | 29,340 | |
| | Buy CAD 550,318, Sell EUR 360,000 @ 1.52866 - Aug 06, 2020 | - | 845 | |
| | Buy CAD 181,841,379, Sell USD 129,775,000 @ 1.40121 - Aug 13, 2020 | - | 5,676,791 | |
| | Buy CAD 2,139,312, Sell USD 1,521,000 @ 1.40652 - Aug 13, 2020 | - | 74,613 | |
| | Buy CAD 20,609,023, Sell USD 15,139,000 @ 1.36132 - Aug 13, 2020 | - | 58,411 | |
| | Total Unrealized gain on forward contracts | - | 5,840,000 | 1.99 |
| | Buy CAD 2,336,573, Sell USD 1,726,000 @ 1.35375 - Aug 13, 2020 | - | (6,406) | |
| | Buy EUR 327,000, Sell CAD 502,342 @ 1.53621 - Aug 13, 2020 | - | (3,238) | |
| | Total Unrealized loss on forward contracts | - | (9,644) | - |
| | TOTAL INVESTMENTS AND FORWARD CONTRACTS | 204,599,445 | 220,517,764 | 75.02 |
| | Transaction Costs (Note 2) | (90,711) | | |
| | TOTAL NET INVESTMENTS | 204,508,734 | 220,517,764 | 75.02 |
| | CASH | | 70,799,917 | 24.08 |
| | OTHER ASSETS, LESS LIABILITIES | | 2,667,473 | 0.90 |
| | TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS | 204,508,734 | 293,985,154 | 100.00 |

Picton Mahoney Fortified Arbitrage Alternative Fund

Schedule of Investment Portfolio

As at June 30, 2020 (unaudited)

Schedule 1

| Number of Shares | Description | Proceed \$ | Fair Value \$ | % of Total |
|---------------------|--|---------------------|---------------------|----------------|
| | SHORT | | | |
| | STOCKS | | | |
| | MATERIALS | | | |
| (190,364) | SSR Mining Inc. | (4,831,586) | (5,507,231) | |
| | TOTAL MATERIALS | <u>(4,831,586)</u> | <u>(5,507,231)</u> | <u>(1.87)</u> |
| | CONSUMER DISCRETIONARY | | | |
| (71,800) | Delphi Technologies PLC | (1,000,909) | (1,385,129) | |
| (12,527) | Eldorado Resorts Inc. | (464,062) | (681,287) | |
| | TOTAL CONSUMER DISCRETIONARY | <u>(1,464,971)</u> | <u>(2,066,416)</u> | <u>(0.70)</u> |
| | CONSUMER STAPLES | | | |
| (60,300) | Craft Brew Alliance Inc. | (1,289,762) | (1,259,876) | |
| | TOTAL CONSUMER STAPLES | <u>(1,289,762)</u> | <u>(1,259,876)</u> | <u>(0.43)</u> |
| | FINANCIALS | | | |
| (36,504) | Aon PLC | (9,811,532) | (9,544,837) | |
| (100,867) | The Charles Schwab Corp. | (5,399,906) | (4,620,256) | |
| (88,590) | Morgan Stanley | (4,768,946) | (5,809,031) | |
| (42,500) | Taubman Centers Inc. | (2,356,248) | (2,178,676) | |
| | TOTAL FINANCIALS | <u>(22,336,632)</u> | <u>(22,152,800)</u> | <u>(7.54)</u> |
| | INDUSTRIALS | | | |
| (25,800) | Advanced Disposal Services Inc. | (1,109,782) | (1,056,737) | |
| | TOTAL INDUSTRIALS | <u>(1,109,782)</u> | <u>(1,056,737)</u> | <u>(0.36)</u> |
| | INFORMATION TECHNOLOGY | | | |
| (161,900) | Fitbit Inc. | (1,419,784) | (1,419,879) | |
| | TOTAL INFORMATION TECHNOLOGY | <u>(1,419,784)</u> | <u>(1,419,879)</u> | <u>(0.48)</u> |
| | UTILITIES | | | |
| (145,384) | Brookfield Renewable Partners L.P. | (9,222,245) | (9,454,182) | |
| | TOTAL UTILITIES | <u>(9,222,245)</u> | <u>(9,454,182)</u> | <u>(3.22)</u> |
| | TOTAL STOCKS | <u>(41,674,762)</u> | <u>(42,917,121)</u> | <u>(14.60)</u> |
| | OPTIONS | | | |
| | Call Options | | | |
| (417) | Brookfield Renewable Partners L.P. October 2020, \$90.00 CAD | (10,112) | (2,085) | |
| (842) | Fitbit Inc. August 2020, \$7.00 USD | (16,996) | (14,860) | |
| (42) | Tiffany & Co. July 2020, \$120.00 USD | (18,659) | (24,233) | |
| (105) | Tiffany & Co. July 2020, \$130.00 USD | (13,705) | (5,417) | |
| | | <u>(59,472)</u> | <u>(46,595)</u> | <u>(0.02)</u> |
| | Put Options | | | |
| (842) | Fitbit Inc. August 2020, \$6.00 USD | (33,955) | (30,864) | |
| (42) | Tiffany & Co. July 2020, \$110.00 USD | (33,973) | (4,276) | |
| | Total Put Options | <u>(67,928)</u> | <u>(35,140)</u> | <u>(0.01)</u> |
| | TOTAL OPTIONS | <u>(127,400)</u> | <u>(81,735)</u> | <u>(0.03)</u> |
| | TOTAL SHORT | <u>(41,802,162)</u> | <u>(42,998,856)</u> | <u>(14.63)</u> |

Picton Mahoney Fortified Arbitrage Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

1. Establishment of the Fund

Picton Mahoney Fortified Arbitrage Alternative Fund (formerly Vertex Liquid Alternative Fund) (the "Fund") was formed on January 3, 2019 under the laws of British Columbia. The Fund commenced operations on January 17, 2019. Picton Mahoney Asset Management acts as manager (the "Manager") and portfolio advisor (the "Portfolio Advisor") for the Fund. The Manager is responsible for the day-to-day business of the Fund, including the management of the Fund's investment portfolio. The address of the Fund's registered office is 33 Yonge Street, Suite 830, Toronto, Ontario, M5E 1G4. CIBC Mellon Trust Company is the Trustee and (the "Trustee") and the Custodian (the "Custodian") of the Fund. The financial statements are presented in Canadian dollars (CAD). These financial statements were authorized for issue by the Manager on August 28, 2020.

On October 21, 2019, the Manager and Vertex One Asset Management Inc. ("Vertex"), the previous manager for the Fund, entered into a purchase agreement (the "Purchase Agreement") pursuant to which the Manager acquired the investment fund management contracts for the Fund as of January 13, 2020 (the "Transaction").

Unitholders of the Fund approved the change of manager from Vertex to the Manager at a special meeting of the Fund's unitholders on November 28, 2019. Further details of the Transaction were provided in a management information circular that was sent to unitholders in connection with the meetings as required by securities regulations, which is also available under the Fund's profile at www.sedar.com. On closing of the Transaction, the Manager became the investment fund manager and Portfolio Advisor of the Fund.

The Fund may issue an unlimited number of classes or series and may issue an unlimited number of units of each class or series. The Fund has created Class A, Class F, and Class I (formerly Class O) units.

Class A units are available to all investors. Class F units have lower fees than Class A units and are generally available only to investors who have fee-based accounts with dealers who have been approved by us to sell Class F units. Class I units are available to the Picton Mahoney Fortified Arbitrage Plus Alternative Fund, other investment funds managed by the Manager, institutional investors and to other investors on a case-by-case basis, all at the discretion of the Manager. There are no fees associated with this class in order to prevent fee duplication. As at June 30, 2020, the Fund currently has 3 classes of units: Class A, Class F, and Class I.

The investment objective of the Fund is to generate consistent, positive returns, with low volatility and low correlation to equity markets by investing in securities in Canada, the United States and in other foreign jurisdictions.

The Fund falls within the definition of an "alternative mutual fund" set out in NI 81-102 as it is permitted to use strategies generally prohibited by other types of mutual funds, such as the ability to invest more than 10% of its NAV in securities of a single issuer, either directly or through the use of specified derivatives, the ability to borrow cash, up to 50% of its NAV, to use for investment purposes, the ability to sell securities short (the combined level of cash borrowing and short selling is limited to 50% of its NAV in aggregate), and the ability to use leverage through the use of cash borrowing, short selling and specified derivatives. The maximum aggregate exposure to these sources of leverage, as calculated in accordance with section 2.9.1 of NI 81-102, shall not exceed 300% of the fund's NAV.

Picton Mahoney Fortified Arbitrage Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

2. Basis of accounting

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (“IASB”). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit and loss.

3. Significant accounting policies

Financial assets and financial liabilities at fair value through profit or loss

a) Classification

i. Assets

The Fund classifies its investments based on both Fund’s business model for managing those financial assets and contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets’ performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund’s debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund’s business model’s objective. Consequently, all investments are measured at fair value through profit or loss.

ii. Liabilities

The fund makes short sales in which borrowed security is sold on anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

iii. Other financial assets and other financial liabilities

Other financial assets (held for collection) and other financial liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, where appropriate at the contract’s effective interest rate. Due to their short-term nature, the fair value of other financial assets and financial liabilities carried at amortized cost approximates their carrying amount.

As such, the Fund classifies all of its investment portfolio as financial assets or liabilities as fair value through profit or loss.

The Fund’s policy requires the Manager to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

Picton Mahoney Fortified Arbitrage Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

b) Recognition, derecognition and measurement

Regular purchases and sales of investments are recognized on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets and financial liabilities are initially recognized at fair value. Transaction costs related to financial instruments at FVTPL are expensed as incurred in the Statements of Comprehensive Income.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

When the Fund purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When the Fund writes an option, an amount equal to fair value which is based on the premium received by the Fund is recorded as a liability. When options are closed, the difference between the premium and the amount paid or received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognized as a gain or loss and is presented in the Statements of Comprehensive Income within net realized gain (loss) on investments and derivatives.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the ‘financial assets or financial liabilities at fair value through profit or loss’ category are presented in the Statements of Comprehensive Income within net change in unrealized appreciation (depreciation) on investments and derivatives in the period in which they arise.

All other financial assets and liabilities are measured at amortized cost due to their short-term nature.

c) Income Recognition

Dividend income from financial assets at fair value through profit or loss is recognized in the Statements of Comprehensive Income within Dividend income when the Fund’s right to receive payments is established. Interest on debt securities at fair value through profit or loss is recognized in the Statements of Comprehensive Income as Interest for distribution purposes which represents the coupon interest on debt instruments held by the Fund determined on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities. Interest on cash balances are also recognized in the Statements of Comprehensive Income as Interest for distribution purposes. Net realized gain (loss) and Net change in unrealized appreciation (depreciation) of investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds. Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognized in profit or loss as an expense.

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. For financial statement purposes, investments traded on a recognized exchange, are recorded at fair value, established by last traded market price where the last traded market price falls within the day’s bid ask spread. In circumstances where the last traded price is not within that day’s bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on specific facts and circumstances.

Picton Mahoney Fortified Arbitrage Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

The value of any security which is not listed or traded on an exchange, but which is listed or traded on another market, including an over-the-counter market, being a marketplace other than an exchange where securities are normally purchased and sold and quotations are in common use in respect thereof, shall be determined in the same manner as a listed security by reference to prices on that market.

Warrants if listed on a recognized exchange are valued at the latest available close price. If the warrants are not listed, but a secondary market exists then the independent broker prices (if available), who trade in such market will be used. If no secondary market exists, the warrants will be valued using the Black Scholes option pricing model.

The value of any security or property for which, in the opinion of the Manager the published market quotations are not readily available shall be the fair value as determined by the Manager based on valuation techniques. The fair value of certain securities are determined by using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, discounted cash flow analysis, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indicators of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would have been used had a ready market for the investment existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and the length of time to maturity.

Cash

Cash is comprised of cash on deposit.

Collateral

Cash collateral provided by the Fund is identified in the Statements of Financial Position as “Cash, pledged as collateral”, if any. For collateral other than cash, if the party to whom the collateral is provided has the right by contract or custom to sell or re-pledge the collateral, the Fund classifies that asset in its Statements of Financial Position separately from other assets and identifies the asset as “Investments, pledged as collateral”. Where the party to whom the collateral is provided does not have the right to sell or re-pledge, the collateral provided is disclosed in the notes to the financial statements.

Forward contracts

The Fund enters into forward contracts to manage risk or to achieve desired returns. Gains or losses are realized based on the settlement term of the forward contracts. These forward contracts are valued based on the difference between the contract rate and the current market prices for the underlying asset, adjusted to reflect credit risk and other relevant factors as applicable. The unrealized gain or loss is reflected in the Statements of Financial Position as Forward contracts.

Picton Mahoney Fortified Arbitrage Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

Options

Option premiums paid or received by the Fund are, so long as the options are outstanding, reflected in the Schedule of Investments. Exchange traded options are valued at their last traded market price where the last traded market price falls within the day's bid-ask spread. In cases where the last traded price is not within the day's bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on specific facts and circumstances. Over the counter options are valued using industry-accepted modeling techniques on each valuation day.

Realized gains and losses relating to purchased options may arise from:

- i) Expiration of purchased options – realized losses will arise equal to the premium paid;
- ii) Exercise of the purchased options – for put options, realized gains will arise up to the intrinsic value of the option net of premiums paid and for call options, the premium will be added to the cost base of the security purchased; or
- iii) Closing of the purchased options – realized gains or losses will arise equal to the proceeds from selling the options to close the position, net of any premium paid.

Realized gains and losses relating to written options may arise from:

- i) Expiration of the written options – realized gains will arise equal to the premium received;
- ii) Exercise of the written options – for call options, realized gains or losses will arise equal to the sum of the premium received and the realized gain or loss from the disposition of the related portfolio investment at the exercise price of the option and for put option, the premium will be deducted from the cost base of the security purchased; or
- iii) Closing of the written options – realized gains or losses will arise equal to the cost of purchasing options to close the position net of any premium received.

Realized gains and losses related to options are included in “Net realized gain (loss) on investments and derivatives” in the Statements of Comprehensive Income.

Foreign currency translation

The Fund's subscriptions and redemptions are denominated in Canadian dollars which is also its functional and presentation currency. Assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year end. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the rate of exchange prevailing at the transaction date. Foreign exchange gains and losses relating to cash are presented as “foreign exchange gain (loss) on cash” and those related to investments and derivatives are included in “net realized gain (loss) on investments and derivatives” and “net change in unrealized (depreciation) appreciation on investments and derivatives”.

Leverage

Leverage occurs when the Fund's notional exposure to underlying assets is greater than the amount invested, and may not exceed 300% of the Fund's NAV. Notional exposure equals to the total of the following: (i) the aggregate value of the Fund's outstanding indebtedness; (ii) the aggregate market value of physical short sales on equities, fixed income securities or other portfolio assets; and (iii) the aggregate notional value of the Fund's specified derivatives positions excluding any specified derivatives used for hedging purposes. The calculation excludes cash and other net assets of the Fund.

Picton Mahoney Fortified Arbitrage Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

During the period, the Fund's leverage position ranged from 6.06% to 20.43% (December 31, 2019 – 3.13% to 26.30%) of the Fund's NAV. The primary sources of leverage were the short sales of securities and the margin borrowings, which is governed by a prime brokerage agreement between the Fund and CIBC.

Margin Borrowings

Borrowings are recognized at fair value net of transaction costs incurred. They are subsequently valued at amortized cost; any difference is recognized in the Statements of Comprehensive Income over the period of the borrowing using the effective interest method.

The Fund has a margin borrowing facility for investment purposes up to 50% of its most recently calculated net asset value attributable to holders of redeemable units.

The margin borrowing facility has no maturity and bears interest at Canadian overnight rates plus agreed spread with CIBC. The margin borrowing facility can be settled by the Fund at its discretion without any penalty. The margin borrowings from CIBC are due on demand.

The carrying value of the margin borrowing approximates its fair value and is shown as "Margin borrowings" in the Statements of Financial Position. For the period from January 1, 2020 to June 30, 2020, the average margin borrowing was \$4,307,771 (December 31, 2019 - \$1,301,303).

Securities sold short

The Fund may sell a security it does not own in anticipation of a decline in the fair value of that security. It may also enter short positions to hedge against long positions. When the Fund sells a security short, it must deliver the security sold short to the purchaser at a future date. A gain, limited to the proceeds received on the security sold short, or a loss, unlimited in size, will be realized when the securities to cover the short sale obligation are acquired by the Fund. Securities sold short are reported in the financial statement as a liability at fair value through profit or loss as described above under recognition. Dividends and interest on these securities sold short are payable to the purchaser and are recognized in "Dividends, paid on shorts" or "Interest, paid on shorts" in the Statements of Comprehensive Income.

Increase (decrease) in net assets attributable to holders of redeemable units for each Class

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 for the period per class, divided by the weighted average units outstanding during the period for that class.

Net Assets attributable to holders of redeemable units and related per unit amounts

The Fund issues three classes of redeemable units, which are redeemable at the holder's option and do not have identical rights. Such units are classified as financial liabilities. Redeemable units can be put back to the Fund at any dealing date for cash equal to a proportionate share of the Fund's net asset value attributable to the unit class. Units are redeemable daily. The redeemable units are carried at the redemption amount that is payable at the Statements of Financial Position date if the holder exercises the right to put the unit back to the Fund. Redeemable units are issued and redeemed at the holder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the holders of each class of

Picton Mahoney Fortified Arbitrage Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

redeemable units with the total number of outstanding redeemable units for each respective class. Investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit (NAV) for transactions with unitholders. As at June 30, 2020, there were no differences between the Fund's net asset value per security and its net assets per security calculated in accordance with IFRS.

A separate NAV is calculated for each Class of units of the Fund by taking the Class' proportionate share of the Fund's common assets less that Class' proportionate share of the Fund's common liabilities and deducting from this amount all liabilities that relate solely to a specific Class. The NAV per unit for each Class is determined by dividing the NAV of each Class by the number of units of that Class outstanding on the valuation date.

Classification of redeemable units issued by the Fund

Under IFRS, IAS 32 requires that units or shares 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 and therefore, have been classified as financial liabilities.

Taxation

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). 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 has determined that it is in substance not taxable and therefore does not record income taxes in the Statements of Comprehensive Income nor does it recognize any deferred tax assets or liabilities in the Statements of Financial Position. As at December 31, 2019, the Fund had \$nil unused capital losses which have no expiry and \$nil non-capital losses.

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

4. Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments in applying its accounting policies and to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual amounts could differ from those estimates.

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

The Fund holds financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources. Broker quotes as obtained from the pricing sources may be indicative and not executable. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally 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.

Picton Mahoney Fortified Arbitrage Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

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.

5. Fair value disclosure

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

Level 1- quoted prices (unadjusted) in active markets for identical assets or liabilities that 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.

Level 3- unobservable inputs for the asset or liability.

The Fund's financial instruments which are recorded at fair value have been categorized based upon this fair value hierarchy. The following fair value hierarchy table presents information about the Fund's financial instruments measured at fair value as at June 30, 2020 and December 31, 2019.

| | Financial Assets at fair value as at June 30, 2020 | | | |
|-------------------|---|----------------------|----------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Stocks - Long | \$ 230,007,035 | \$ 5,141,374 | \$ - | \$ 235,148,409 |
| Bonds - Long | - | 16,439,544 | - | 16,439,544 |
| Rights | 61,716 | 57,426 | - | 119,142 |
| Warrants | 4,738,769 | 164,547 | - | 4,903,316 |
| Options | | 1,075,853 | | 1,075,853 |
| Forward contracts | | 5,840,000 | | 5,840,000 |
| | <u>\$ 234,807,520</u> | <u>\$ 28,718,744</u> | <u>\$ -</u> | <u>\$ 263,526,264</u> |

| | Financial Liabilities at fair value as at June 30, 2020 | | | |
|-------------------|--|--------------------|----------------|------------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Stocks - Short | \$ (42,917,121) | \$ - | \$ - | \$ (42,917,121) |
| Options | (50,000) | (31,735) | - | (81,735) |
| Forward contracts | | (9,644) | | (9,644) |
| | <u>\$ (42,967,121)</u> | <u>\$ (41,379)</u> | <u>\$ -</u> | <u>\$ (43,008,500)</u> |

Picton Mahoney Fortified Arbitrage Alternative Fund

Notes to Financial Statements

June 30, 2020 (Unaudited)

| | Financial Assets at fair value as at December 31, 2019 | | | |
|-------------------|---|----------------------|----------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Stocks - Long | \$ 138,429,215 | \$ 53,250,709 | \$ - | \$ 191,679,924 |
| Warrants | 711,571 | 64,274 | - | 775,845 |
| Options | 110,537 | 36,137 | - | 146,674 |
| Forward contracts | - | 2,059,045 | - | 2,059,045 |
| | <u>\$ 139,251,323</u> | <u>\$ 55,410,165</u> | <u>\$ -</u> | <u>\$ 194,661,488</u> |

| | Financial Liabilities at fair value as at December 31, 2019 | | | |
|----------------|--|--------------------|----------------|------------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Stocks - Short | \$ (27,670,141) | - | - | \$ (27,670,141) |
| Options | (361,433) | (19,787) | - | (381,220) |
| | <u>\$ (28,031,574)</u> | <u>\$ (19,787)</u> | <u>\$ -</u> | <u>\$ (28,051,361)</u> |

Investments are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an investment classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, investments 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. Likewise, if an investment classified as Level 2 or Level 3, subsequently becomes actively traded and/or have a quoted price available, it is transferred into Level 1.

The Fund uses the following techniques to determine the Level 2 fair value measurements:

Equities - The fair value of equities are determined using inputs other than quoted prices included in level 1 that are observable for the asset or liability directly or indirectly. This includes transaction prices in markets that are not active for identical instruments, quoted prices in markets for similar, but not identical, instruments and transaction prices in markets that are not active for similar, but not identical, instruments.

Bonds - The fair value of bonds are determined by obtaining the quoted market prices or executable dealer quotes for identical or similar instruments in inactive markets, or other inputs that are observable or can be corroborated by observable market data. In addition the fund also values the investments using the net present value of estimated future cash flows.

Forward contracts - The fair value of forward foreign exchange contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present value.

Options and other over-the-counter derivatives - Options and other over-the-counter derivatives are classified as level 1 when they are exchange traded and prices are readily available on the market. Where they are not traded, the Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each year end date. Valuation techniques used for these non-standardized financial instruments, such as options and other over-the-counter derivatives, include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs. Where the inputs are observable, the options and other over-the-counter derivatives are classified into level 2. Where the inputs are not observable, they are classified into level 3.

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Warrants – Warrants are classified as level 1 when they are exchange traded and prices are readily available on the market. Where they are not traded, the fair value of warrants are valued using the Black Scholes options pricing model. The warrants are classified as Level 2 where the underlying security is listed and the other inputs are observable.

Level 3 fair value measurements and sensitivity analysis

There were no level 3 securities held for assets and liabilities as at June 30, 2020 and December 31, 2019.

6. Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position where the Fund currently has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the Fund enters into various master netting agreements or other similar arrangements that do not meet the criteria for offsetting in the Statements of Financial Position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of the contracts.

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, as at June 30, 2020 and December 31, 2019, and shows in the ‘Net’ column what the net impact would be on the Fund’s Statements of Financial Position if all set-off rights were exercised.

| Financial Assets and Liabilities as at June 30, 2020 | Amounts Offset (\$) | | | Amounts Not Offset (\$) | | Net |
|--|----------------------------|-----------------------------------|-------------|-------------------------|------------------------------------|-----------|
| | Gross Assets (Liabilities) | Gross Assets (Liabilities) Offset | Net Amounts | Financial Instruments | Cash Collateral Received (Pledged) | |
| Derivative assets | 5,840,000 | (9,644) | 5,830,356 | - | - | 5,830,356 |
| Derivative liabilities | (9,644) | 9,644 | - | - | - | - |
| Total | 5,830,356 | - | 5,830,356 | - | - | 5,830,356 |

| Financial Assets and Liabilities as at December 31, 2019 | Amounts Offset (\$) | | | Amounts Not Offset (\$) | | Net |
|--|----------------------------|-----------------------------------|-------------|-------------------------|------------------------------------|-----------|
| | Gross Assets (Liabilities) | Gross Assets (Liabilities) Offset | Net Amounts | Financial Instruments | Cash Collateral Received (Pledged) | |
| Derivative assets | 2,059,045 | - | 2,059,045 | - | - | 2,059,045 |
| Derivative liabilities | - | - | - | - | - | - |
| Total | 2,059,045 | - | 2,059,045 | - | - | 2,059,045 |

7. Interest in unconsolidated structured entities

The Fund has determined that its investments in underlying funds, securitizations, asset-backed securities and mortgage-backed securities, if any, are unconsolidated structured entities. The determination is based on the fact that decision making about the underlying funds, securitizations, asset-backed securities and mortgage-backed securities is not governed by the voting right or other similar right held by the Fund.

The Fund may invest in underlying funds whose investment objectives range from achieving short-term to long-term income and capital growth potential. Underlying funds may use leverage in a manner

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consistent with their respective investment objectives and as permitted by Canadian securities regulatory authorities. Underlying funds finance their operations by issuing redeemable units which are puttable at the holders' option and entitles the holder to a proportionate value in the respective fund's Net Assets. The change in fair value of each of the underlying funds during the period is included in "Net change in unrealized appreciation (depreciation) on investments and derivatives" in the Statements of Comprehensive Income.

The Fund does not provide and has not committed to providing any additional significant financial or other support to the unconsolidated structured entities other than its investments in the unconsolidated structured entities.

There was no interest in unconsolidated structured entities as at June 30, 2020 and December 31, 2019.

Investment Entity

The fund has determined that it meets the definition of an "investment entity" and as a result, it measures subsidiaries, if any, at FVTPL. An investment entity is an entity that: obtains funds from one or more investors for the purposes of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The most significant judgement that the Fund has made in determining that it meets this definition is that fair value is the primary measurement attribute used to measure and evaluate the performance of substantially all of its investments.

8. Redeemable units

Redeemable units transactions include amounts representing unit subscriptions, unit redemptions, and units reinvested. Units are redeemable daily. The Fund generally has no restrictions or specific capital requirements on the subscription and redemptions of units. In accordance with the objectives and the risk management policies outlined in note 11, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being managed by investing the majority of assets in investments that can be readily disposed. The following table summarizes the changes in the number of redeemable units during the periods:

| | June 30, 2020 | | |
|-----------------------------|---------------|-----------|-------------|
| | Class A | Class F | Class I |
| Units - Beginning of period | 313,264 | 2,914,364 | 17,062,872 |
| Redeemable units issued | 59,518 | 1,471,354 | 10,968,474 |
| Redeemable units reinvested | | | |
| Redeemable units redeemed | (65,077) | (953,003) | (4,587,650) |
| Units - End of period | 307,705 | 3,432,715 | 23,443,696 |

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| | June 30, 2019 | | |
|-----------------------------|---------------|-----------|------------|
| | Class A | Class F | Class I |
| Units - Beginning of period | - | - | - |
| Redeemable units issued | 193,418 | 1,636,408 | 11,018,265 |
| Redeemable units reinvested | - | - | - |
| Redeemable units redeemed | (1,087) | (133,596) | (1) |
| Units - End of period | 192,331 | 1,502,812 | 11,018,264 |

9. Fees and expenses

a) *Management fees*

As consideration for the services provided by the Manager, the Fund pays the Manager a management fee, monthly in arrears. The management fee is calculated daily, on each business day, as a percentage of the NAV of each class of Units that comprise the Fund. The management fee may vary from class to class and will be deducted as an expense of each Fund in the calculation of the net profits of such Fund. The management fee for each of the existing classes of Units is as follows:

Class A: 1/365 of 2% (2% per annum) of the aggregate NAV of the Class A Units on the preceding business day plus applicable taxes.

Class F: 1 1/365 of 1% (1% per annum) of the aggregate NAV of the Class F Units on the preceding business day plus applicable taxes.

Class I: No management fees are payable for Class I Units. Class I Units are not available for purchase directly by investors.

Management fees amounting to \$207,646 were incurred for the period ended June 30, 2020 (June 30, 2019 - \$40,464) of which \$36,415 (December 31, 2019 - \$25,840) were outstanding at period end.

b) *Performance fees*

The Manager is entitled to a performance fee in relation to each Class A Units and Class F Units that is equal to 15% of the amount by which the total return of the class of Units exceeds the previous high water mark for each applicable class of Units. Any day a performance fee is paid for the Fund, a high water mark is set, which is equal to the NAV of such Fund on such date, after deducting all fees and expenses. No further performance fee will be paid until the NAV, adjusted for any distributions since the high water mark was last set, exceeds this high water mark value. This high water mark is perpetual and cannot be reset. Deficiencies to the high water mark accrue for each day the Fund does not exceed the high water mark and performance fees will not be accrued until the class of Units of the Fund has exceeded the high water mark. There is no performance fee associated with Class I Units of the Fund.

Performance fees for the Fund will be calculated and accrued (and become payable) daily, and such accrued fees will be paid by the Fund quarterly such that, to the extent possible, the Unit price each day will reflect any performance fees payable at the end of such day. The Manager reserves the right to change the period for which any performance fee may be paid by a Fund to the Manager. Performance fees are subject to applicable taxes.

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No change in the Manager's performance fee payment policy will be made without at least 60 days notice to the unitholders. The Manager has reserved the right to change the period for which any performance fee may be paid by the Fund to the Manager.

Performance fees amounting to \$280,874 were incurred for the period ended June 30, 2020 (June 30, 2019– \$13,157) of which \$193,533 (December 31, 2019 – \$58,805) were outstanding at period end.

c) Other fees and expenses

The Fund is responsible for the payment of all fees and expenses relating to its operation, including the fees and expenses of the record-keeper, audit, accounting, administration (other than advertising and promotional expenses which are paid for by the Manager), record keeping and legal fees and expenses, custody and safekeeping charges, all costs and expenses associated with the qualification for sale of units, providing financial and other reports to unitholders and convening and conducting meetings of Unitholders, all taxes, assessments or other governmental charges levied against the Fund, interest and all brokerage and other fees relating to the purchase and sale of the assets of the Fund. The Manager will pay for all expenses associated with the identification and management of the Fund's investments (other than direct expenses such as interest charges on margin borrowings and brokerage fees, which are the responsibility of the Fund).

At the discretion of the Manager, certain expenses, as defined in the simplified prospectus, were absorbed during the period in the amount of \$nil (June 30, 2019 - 67,832).

10. Soft dollar commissions

Soft dollar commissions relate to amounts paid to brokers in exchange for research or other services provided to the Manager. The Fund paid \$58,904 (June 30, 2019 – \$5,770) in soft dollar commissions during the period.

11. Financial risk management

The Fund may use various forms of leverage that increases the effect of any investment value changes on capital. These include the use of margin borrowings and derivatives. While borrowing and leverage present opportunities for increasing total return, they have the effect of potentially increasing losses as well.

If the gains on financial assets made with borrowed funds are less than the costs of the leverage or, under certain circumstances, if the borrowing is terminated by the applicable lenders or counterparties in advance of its stated term, the value of the Fund's net assets attributable to holders of redeemable units will decrease. Therefore, any event that adversely affects the value of an investment by the Fund would be magnified to the extent leverage is employed. The cumulative effect of the use of leverage in a market that moves adversely to a leveraged investment could result in a substantial loss which would be greater than if leverage were not used.

The Fund's financial instruments consist of investments, investments pledged as collateral, cash, cash pledged as collateral, due from broker, dividends receivable, other receivable, subscriptions receivable, derivative financial instruments, securities sold short, dividends payable on securities sold short, management fees payable, accrued performance fees, margin borrowings, accounts payable and accrued liabilities, due to broker and redemptions payable. As a result, the Fund is exposed to various types of

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risks that are associated with its investment strategies, financial instruments and markets in which it invests. The Manager maintains a risk management practice that includes daily monitoring of the returns-based risk profile of the Fund. The purpose of such practices is to minimize the potential adverse effect of each risk on the Fund's financial performance while being consistent with the Fund's investment objective. The risks include market risk (including interest rate risk, other price risk, and currency risk), credit risk and liquidity risk. These risks and related risk management practices employed by the Fund are discussed below:

a) *Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than interest rates and foreign currency exchange rates). The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits and the Fund's other price risk is managed through diversification of the investment portfolio. The Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges. As at June 30, 2020 and December 31, 2019, the overall market exposures were as follows:

| | At June 30, 2020 | | At December 31, 2019 | |
|------------------------------|-----------------------|-----------------|-------------------------|-----------------|
| | Fair Value | % Net Assets | Fair Value | % Net Assets |
| Equity securities (Long) | \$ 240,170,867 | 81.70% | \$ 192,455,769 | 92.24% |
| Derivative assets | | | | |
| Option contracts | 1,075,853 | 0.37% | 146,674 | 0.07% |
| Total market exposure | \$ 241,246,720 | 82.07% | \$ 192,602,443 | 92.31% |

| | At June 30, 2020 | | At December 31, 2019 | |
|------------------------------|------------------------|-----------------|-------------------------|-----------------|
| | Fair Value | % Net Assets | Fair Value | % Net Assets |
| Equity securities (Short) | \$ (42,917,121) | (14.60%) | \$ (27,670,141) | (13.26%) |
| Derivative liabilities | | | | |
| Option contracts | (81,735) | (0.03%) | (381,220) | (0.18%) |
| Total market exposure | \$ (42,998,856) | (14.63%) | \$ (28,051,361) | (13.44%) |

Short selling risk is the risk of loss related to short selling transactions. The Fund will profit from a short sale transaction if the value of the borrowed security declines in value from the time the Fund sells the stock to the time the Fund closes out its short position. There is no certainty that the security price will decline, and unlike long positions, where the risk of loss is limited to the amount of the initial investment, short positions may be closed out at a price that would result in a significant loss for the Fund. The Fund's discretion may be limited in an open short sale transaction. For example, the lender may recall the security unexpectedly, or go bankrupt thereby jeopardizing the recoverability of collateral. As well, the Fund may encounter difficulty repurchasing the security should that security's liquidity become compromised in the marketplace. The Fund mitigates such risk by shorting only liquid securities, and by depositing the appropriate collateral against the short positions.

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As of June 30, 2020, if the Fund's net equity position and option investments had increased or decreased by 5%, with all other variables held constant, this would have approximately increased or decreased net assets by \$9,912,393 (December 31, 2019 – \$8,227,554). Actual results may differ from this sensitivity analysis and those results could be material.

b) *Interest rate risk*

The Fund uses various forms of leverage that increase the Fund's interest costs. There is no guarantee that existing borrowing arrangements or other arrangements for obtaining leverage can be refinanced at rates as favourable to the Fund as those available in the past. Should interest rates increase or decrease by 25 basis points the Fund's borrowing costs would increase or decrease by approximately \$nil (December 31, 2019 – \$30,124). Actual results may differ from this sensitivity analysis and those results could be material. The Manager reviews the interest rate exposure on a regular basis.

As at June 30, 2020, the Fund's investment portfolio includes interest bearing corporate bonds. As a result, the Fund is subject to interest rate risk due to fluctuations in the prevailing level of market interest rates which could impact the Fund's cash flows and the fair values of its interest bearing investments.

The table below summarizes the Fund's exposure to interest rate risk. It includes the Fund's financial assets and liabilities at fair value, categorized by the earlier of contractual re-pricing or maturity dates.

| | Less than 1 year | 1 - 5 years | More than 5 years | Total |
|-------------------------|------------------------|----------------|-------------------------|---------------|
| As at June 30, 2020 | | | | |
| Financial Assets | | | | |
| Bonds* | \$ - | \$ 9,024,131 | \$ 7,415,413 | \$ 16,439,544 |

At June 30, 2020, should interest rates have increased or decreased by 25 basis points with all other variables remaining constant, the decrease or increase in net assets for the year would amount to approximately \$168,623. Actual results may differ from this sensitivity analysis and those results could be material. The Fund's Managers review the interest rate exposure on a regular basis.

c) *Currency risk*

Currency risk is the risk that the value of net investments denominated in currencies, other than Canadian Dollars, the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. The Fund holds assets and liabilities, including cash, short-term investments, equities, and options that are denominated in currencies other than the Canadian Dollar. It is therefore exposed to currency risk, as the value of and cash flows associated with the securities denominated in other currencies fluctuate due to changes in exchange rates. The Manager reviews the currency positions of the Fund on a regular basis and the Fund may enter into foreign exchange forward contracts for hedging purposes to reduce its foreign currency exposure or to establish exposure to foreign currencies.

The currency risk reflects the net impact after taking into consideration the forward contracts. Actual results may differ from this sensitivity analysis and those results could be material. As at June 30, 2020 and December 31, 2019, if the Canadian dollar strengthened or weakened by 5% in relation to all other currencies, with all other variables held constant the decrease or increase respectively in net assets would approximately amount to values as disclosed in the table below:

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As at June 30, 2020

| | Monetary exposure ** | Non-monetary exposure * | Assets Hedged by forward contracts | Net currency exposure | % of Net assets attributable to holders of redeemable units | 5% Decrease /increase |
|-----------|-------------------------|----------------------------|---------------------------------------|--------------------------|---|--------------------------|
| US Dollar | \$ 24,000,088 | 181,256,871 | \$ (201,122,878) | \$ 4,134,081 | 1.41% | \$ 206,704 |
| Total | \$ 24,000,088 | \$ 181,256,871 | \$ (201,122,878) | \$ 4,134,081 | 1.41% | \$ 206,704 |

As at December 31, 2019

| | Monetary exposure ** | Non-monetary exposure * | Assets Hedged by forward contracts | Net currency exposure | % of Net assets attributable to holders of redeemable units | 5% Decrease /increase |
|-----------|-------------------------|----------------------------|---------------------------------------|--------------------------|---|--------------------------|
| US Dollar | \$ (5,100,044) | \$ 153,547,162 | \$ (147,240,955) | \$ 1,206,163 | 0.58% | \$ 60,308 |
| Total | \$ (5,100,044) | \$ 153,547,162 | \$ (147,240,955) | \$ 1,206,163 | 0.58% | \$ 60,308 |

* The non-monetary exposure is net of short securities, if any.

** The monetary exposure is net of loan payables, if any.

d) *Liquidity risk*

Liquidity risk is the risk that a fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund's exposure to liquidity risk is concentrated in the cash redemptions of units, and borrowings at the daily valuation date. The Fund invests primarily in securities that are traded in active markets and can be readily disposed of. The Fund may, from time to time, invest in derivative contracts traded over the counter or in unlisted securities, which are not traded in an organized market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the credit worthiness of any particular issuer. Investments held as at June 30, 2020 that may be subject to liquidity risk have been identified on the Schedule of Investments. In addition, the Fund retains sufficient cash to maintain liquidity.

There is no guarantee that existing borrowing facilities or arrangements for obtaining leverage, will remain in place for the life of the Fund. The Fund's borrowing facilities are subject to a security interest in favour of the relevant creditors.

Following an event of default under such facilities, the creditors could direct sales of the collateral assets. The prices obtained in any such liquidation or foreclosure sales may not be sufficient to repay the Fund's obligations under the facilities, in which case the Fund would not have any remaining funds to distribute.

Further, most leveraged transactions require the posting of collateral. A decrease in fair value of such financial assets may result in the lender, including derivative counterparties, requiring the Fund to post additional collateral or otherwise sell assets at a time when it may not be in the Fund's best interest to do so. A failure of the Fund to continue to post the required collateral could result in a disposition of Fund's assets at times and prices, which could be disadvantageous to the Fund and could result in substantial

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losses having a material adverse effect on the Fund. To the extent that a creditor has a claim on the Fund, such claim would be senior to the rights of the redeemable participating unitholders.

Expiration or withdrawal of available financing for leverage positions, and the requirement to post collateral in respect of changes in the fair value of leveraged exposures, can rapidly result in adverse effects to the Fund's access to liquidity and its ability to maintain leveraged positions, and may cause the Fund to incur material losses.

The tables below analyze the Fund's financial liabilities as at June 30, 2020 and December 31, 2019 into relevant groupings based on contractual maturity dates. The amounts are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. The net assets attributable to holders of redeemable units are redeemable on demand. However, the Manager does not expect that the contractual maturity disclosed below will be representative of the actual cash outflows as holders of the redeemable units typically retain them for longer than a year.

| | On demand | Less than 3 months | 3 - 12 months | More than 12 months | Total |
|--|---------------|--------------------|---------------|---------------------|-------------|
| As at June 30, 2020 | | | | | |
| Liabilities | | | | | |
| Financial liabilities at fair value | | | | | |
| Securities sold short | \$ 42,917,121 | \$ - | \$ - | \$ - | 42,917,121 |
| Forward contracts | | 9,644 | | | 9,644 |
| Written options | - | 81,735 | - | - | 81,735 |
| Management fees payable | - | 36,415 | - | - | 36,415 |
| Accrued performance fees | - | 193,533 | - | - | 193,533 |
| Accounts payable and accrued liabilities | - | 16,646 | - | - | 16,646 |
| Redemption payable | - | 49,247 | - | - | 49,247 |
| Due to broker | - | 464,223 | - | - | 464,223 |
| Redeemable units | 293,985,154 | - | - | - | 293,985,154 |

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| | On demand | Less than 3 months | 3 - 12 months | More than 12 months | Total |
|---|---------------|--------------------------|------------------|---------------------------|-------------|
| As at December 31, 2019 | | | | | |
| Liabilities | | | | | |
| Financial liabilities at fair value | | | | | |
| Securities sold short | \$ 27,670,141 | \$ - | \$ - | \$ - | 27,670,141 |
| Written options | - | 381,220 | - | - | 381,220 |
| Management fees payable | - | 25,840 | - | - | 25,840 |
| Accrued performance fees | - | 58,805 | - | - | 58,805 |
| Dividends and interest payable on securities sold short | - | 44,556 | - | - | 44,556 |
| Accounts payable and accrued liabilities | - | 12,858 | - | - | 12,858 |
| Redemption payable | - | 7,933,840 | - | - | 7,933,840 |
| Due to broker | - | 1,337,199 | - | - | 1,337,199 |
| Margin borrowings | 12,048,571 | - | - | - | 12,048,571 |
| Redeemable units | 208,640,192 | - | - | - | 208,640,192 |

e) *Credit risk*

Credit risk is the risk that a loss could arise when a security issuer or counterparty to a financial instrument is unable to meet its financial obligations. The Fund's main credit risk is from corporate bonds, and derivative contracts. To maximize the credit quality of its investments, the Manager performs ongoing credit evaluations based upon factors surrounding the credit risk of customers, historical trends and other information. Cash and collateral are held with a prime broker bearing a credit rating of Aa3 or better.

The Fund invests in debt securities. Ratings for securities that subject the Fund to credit risk at June 30, 2020 are disclosed below:

Portfolio by rating category

| Rating | Percentage of net assets June 30, 2020 |
|--------------|---|
| Below BBB | 5.60% |
| N/R | 0.00% |
| Total | 5.60% |

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

As at June 30, 2020 and December 31, 2019, the Fund's net assets were exposed to credit risk arising from forward contracts. The credit rating of the counterparties as at June 30, 2020 and December 31, 2019 ranged from A-1 to A-1+.

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(f) Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

| Portfolio by Category | Percentage of net assets (%) | |
|---|------------------------------|----------------------------|
| | As at June 30, 2020 | As at December 31, 2019 |
| Long - Bonds - Foreign | 5.59 | - |
| Long - Stocks - Energy | - | 0.94 |
| Long - Stocks - Materials | 1.86 | 0.94 |
| Long - Stocks - Industrials | - | 5.66 |
| Long - Stocks - Consumer Discretionary | 3.85 | 5.74 |
| Long - Stocks - Health Care | 3.09 | 11.47 |
| Long - Stocks - Financials | 67.29 | 50.98 |
| Long - Stocks - Information Technology | 1.00 | 5.42 |
| Long - Stocks - Communication Services | - | 2.85 |
| Long - Stocks - Utilities | 4.61 | 8.24 |
| Written Options | 0.37 | 0.07 |
| Forward Contracts -Unrealized Gain | 1.99 | 0.99 |
| Short - Stocks - Energy | - | (0.10) |
| Short - Stocks - Materials | (1.87) | (0.05) |
| Short - Stocks - Industrial | (0.36) | - |
| Short - Stocks - Consumer Discretionary | (0.70) | (0.25) |
| Short - Stocks - Consumer Staples | (0.43) | - |
| Short - Stocks - Health Care | - | (2.15) |
| Short - Stocks - Financials | (7.54) | (5.87) |
| Short - Stocks - Information Technology | (0.48) | (0.23) |
| Short - Stocks - Utilities | (3.22) | (4.61) |
| Short - Call Options | (0.02) | (0.18) |
| Short - Put Options | (0.01) | - |
| Cash | 24.08 | 26.89 |
| Other Assets, Less Liabilities | 0.90 | (6.75) |
| | <u>100.00</u> | <u>100.00</u> |

12. Increase in net assets attributable to holders of redeemable units per unit

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

| Class A | June 30, 2020 | June 30, 2019 |
|--|---------------|---------------|
| Increase (decrease) in net assets attributable to holders of redeemable units | \$ 102,526 | \$ (574) |
| Weighted average units outstanding during the period | 311,707 | 91,644 |
| Increase (decrease) in net assets attributable to holders of redeemable units per unit | 0.33 | (0.01) |

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Notes to Financial Statements

June 30, 2020 (Unaudited)

| Class F | | June 30, 2020 | | June 30, 2019 |
|--|----|----------------------|----|----------------------|
| Increase (decrease) in net assets attributable to holders of redeemable units | \$ | 1,296,781 | \$ | 32,042 |
| Weighted average units outstanding during the period | | 3,109,468 | | 689,932 |
| Increase (decrease) in net assets attributable to holders of redeemable units per unit | | 0.42 | | 0.05 |

| Class I | | June 30, 2020 | | June 30, 2019 |
|--|----|----------------------|----|----------------------|
| Increase (decrease) in net assets attributable to holders of redeemable units | \$ | 11,839,275 | \$ | 460,142 |
| Weighted average units outstanding during the period | | 20,619,957 | | 4,922,260 |
| Increase (decrease) in net assets attributable to holders of redeemable units per unit | | 0.57 | | 0.09 |