

# FORTIFIED INCOME ALTERNATIVE FUND



**THINK AHEAD.  
STAY AHEAD.**



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## MANAGEMENT'S RESPONSIBILITY STATEMENT

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The accompanying financial statements have been prepared by Picton Mahoney Asset Management, the Manager of the Picton Mahoney Fortified Income Alternative Fund (the "Fund"). The Manager is responsible for all of the information and representations contained in these financial statements.

The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements. Management maintains appropriate processes to ensure that relevant and reliable financial information is produced.

### **Picton Mahoney Asset Management**

Toronto, Ontario

August 27, 2021

## NOTICE TO UNITHOLDERS

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The auditor of the Fund has not reviewed these financial statements.

Picton Mahoney Asset Management, the Manager of the Fund, appoints an independent auditor to audit the Fund's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Fund's interim financial statements, this must be disclosed in an accompanying notice.

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## STATEMENTS OF FINANCIAL POSITION

As at June 30, 2021 (unaudited) and December 31, 2020

	June 30, 2021 \$	December 31, 2020 \$
<b>Assets</b>		
<b>Current assets</b>		
Long positions at fair value*	953,843,749	574,512,639
Cash	116,805,684	28,136,430
Options purchased	1,823,563	630,266
Unrealized gain on foreign exchange forward contracts at fair value	38,369	6,081,727
Deposits with brokers for securities sold short	8,450,277	13,355,855
Subscriptions receivable	3,968,378	827,218
Receivable for investments sold	2,786,455	616,754
Dividends receivable	-	32,450
Interest and other receivable	10,129,568	7,104,115
	<u>1,097,846,043</u>	<u>631,297,454</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short positions at fair value**	207,526,811	138,324,663
Options written	966,554	273,558
Unrealized loss on foreign exchange forward contracts at fair value	14,289,389	3,534
Management fee payable	2,033,496	334,045
Performance fee payable	1,080,721	-
Redemptions payable	1,943,792	39,197
Accrued liabilities	192,468	174,434
Payable for investments purchased	4,537,301	605,149
Interest payable	2,975,132	1,138,332
Distributions payable	841	81,783
	<u>235,546,505</u>	<u>140,974,695</u>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<u>862,299,538</u>	<u>490,322,759</u>
<b>Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	50,411,480	31,191,748
Class F	471,252,641	260,587,915
Class I	27,714,097	7,417,649
Class ETF	312,921,320	191,125,447
<b>Number of Redeemable Units Outstanding</b>		
Class A	4,877,615	3,042,114
Class F	44,644,569	24,993,629
Class I	2,555,220	701,015
Class ETF	29,600,000	18,300,000
<b>Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	10.34	10.25
Class F	10.56	10.43
Class I	10.85	10.58
Class ETF***	10.57	10.44
* Long positions, at cost	942,391,777	568,358,400
** Short positions, at cost	(210,134,109)	(140,321,821)
*** Closing Market Price (TSX)	10.59	10.48

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

Approved on behalf of the Manager

David Picton

Arthur Galloway




President

CFO

## STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the six month periods ended June 30 (unaudited)

	2021 \$	2020 \$
<b>Income</b>		
Net gains (losses) on investments and derivatives		
Interest for distribution purposes	20,542,927	5,982,216
Dividends	593,920	321,212
Net realized gain (loss) on investments and options	(1,661,692)	3,476,808
Net realized gain (loss) on foreign exchange forward contracts	30,033,182	(7,059,979)
Change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts	(13,907,729)	8,172,280
Interest and borrowing expense	(4,047,820)	(1,674,323)
Dividend expense	(373,352)	(45,448)
Net gains (losses) on investments and derivatives	<u>31,179,436</u>	<u>9,172,766</u>
Other income		
Securities lending income	-	396
Foreign currency gain (loss) on cash and other assets and liabilities	(1,028,898)	1,298,967
Total Income	<u>30,150,538</u>	<u>10,472,129</u>
<b>Expenses</b>		
Performance fees	3,804,521	786,822
Management fees	3,254,629	1,032,483
Transaction costs	1,895,894	3,388,954
Harmonized sales tax Administrative fees	657,470	137,599
Securityholder reporting fees	222,853	96,586
Audit fees	136,350	31,430
Legal fees	47,990	10,640
Legal fees	35,860	12,190
Withholding taxes	5,333	-
Independent Review Committee fees	3,799	3,530
Custody fees	-	551
Total Expense before Manager Absorption	<u>10,064,699</u>	<u>5,500,785</u>
Less: Expenses Absorbed by Manager	-	(836,872)
Total Expense after Manager Absorption	<u>10,064,699</u>	<u>4,663,913</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>	<u>20,085,839</u>	<u>5,808,216</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	1,105,713	211,583
Class F	10,899,939	4,937,374
Class I	810,932	3,198
Class ETF	7,269,255	656,061
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	0.27	0.21
Class F	0.32	0.54
Class I	0.42	-
Class ETF	0.32	0.06

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the six month periods ended June 30 (unaudited)

	2021 \$	2020 \$		2021 \$	2020 \$
<b>Net Assets Attributable to Holders of Redeemable Units at Beginning of Period</b>			<b>Distributions to Holders of Redeemable Units</b>		
Class A	31,191,748	5,399,531	Net investment income		
Class F	260,587,915	32,771,888	Class A	(923,914)	(183,258)
Class I	7,417,649	6,785,682	Class F	(7,845,065)	(1,697,997)
Class ETF	191,125,447	63,792,125	Class I	(472,985)	(115,911)
	<u>490,322,759</u>	<u>108,749,226</u>	Class ETF	(5,239,862)	(1,952,371)
				<u>(14,481,826)</u>	<u>(3,949,537)</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>			<b>Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>		
Class A	1,105,713	211,583	Class A	19,219,732	12,163,979
Class F	10,899,939	4,937,374	Class F	210,664,726	142,395,567
Class I	810,932	3,198	Class I	20,296,448	(605,363)
Class ETF	7,269,255	656,061	Class ETF	121,795,873	68,414,662
	<u>20,085,839</u>	<u>5,808,216</u>		<u>371,976,779</u>	<u>222,368,845</u>
<b>Redeemable Unit Transactions</b>			<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>		
Proceeds from redeemable units issued			Class A	50,411,480	17,563,510
Class A	23,983,517	12,271,504	Class F	471,252,641	175,167,455
Class F	234,292,253	144,678,606	Class I	27,714,097	6,180,319
Class I	20,900,000	4,900,000	Class ETF	312,921,320	132,206,787
Class ETF	131,328,570	91,530,919			
	<u>410,504,340</u>	<u>253,381,029</u>	<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>	<u>862,299,538</u>	<u>331,118,071</u>
Reinvestments of distributions to holders of redeemable units					
Class A	675,801	117,119			
Class F	4,728,057	958,690			
Class I	472,985	115,911			
Class ETF	-	-			
	<u>5,876,843</u>	<u>1,191,720</u>			
Redemption of redeemable units					
Class A	(5,621,385)	(252,969)			
Class F	(31,410,458)	(6,481,106)			
Class I	(1,414,484)	(5,508,561)			
Class ETF	(11,562,090)	(21,819,947)			
	<u>(50,008,417)</u>	<u>(34,062,583)</u>			
<b>Net Increase (Decrease) from Redeemable Unit Transactions</b>	<u>366,372,766</u>	<u>220,510,166</u>			

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

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## STATEMENTS OF CASH FLOWS

For the six month periods ended June 30 (unaudited)

	2021 \$	2020 \$		2021 \$	2020 \$
<b>Cash Flows from Operating Activities</b>			<b>Cash Flows from Financing Activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	20,085,839	5,808,216	Distributions to holders of redeemable units, net of reinvested distributions	(8,685,925)	(2,777,489)
Adjustments for:			Proceeds from redeemable units issued	405,521,391	252,173,208
Unrealized foreign exchange (gain) loss on cash	(793,110)	(117,298)	Amount paid on redemption of redeemable units	(46,262,033)	(33,737,242)
Net realized (gain) loss on investments, options and foreign exchange forward contracts	1,661,692	(3,476,808)	<b>Net Cash Generated (Used) by Financing Activities</b>	<b>350,573,433</b>	<b>215,658,477</b>
Change in unrealized (appreciation) depreciation on investments, options and foreign exchange forward contracts	13,907,729	(8,172,280)	Unrealized foreign exchange gain (loss) on cash	793,110	117,298
(Increase) decrease in interest and other receivables	(3,025,453)	(3,103,089)	Net increase (decrease) in cash	87,876,144	10,443,940
(Increase) decrease in dividends receivable	32,450	(44,010)	Cash, beginning of period	28,136,430	5,769,791
(Increase) decrease in deposits with brokers for securities sold short	4,905,578	4,495,623	<b>Cash, End of Period</b>	<b>116,805,684</b>	<b>16,331,029</b>
Increase (decrease) in interest payable	1,836,800	334,670	<b>Cash</b>	<b>116,805,684</b>	<b>16,331,029</b>
Increase (decrease) in other payables and accrued liabilities	2,798,206	642,392	<b>Cash overdraft</b>	-	-
Purchase of long positions and repurchases of investments sold short	(1,226,001,982)	(736,816,344)	<b>Net Cash (Overdraft)</b>	<b>116,805,684</b>	<b>16,331,029</b>
Proceeds from sales of long positions and on investments sold short	921,894,962	535,234,391	<b>Items classified as operating activities:</b>		
<b>Net Cash Generated (Used) by Operating Activities</b>	<b>(262,697,289)</b>	<b>(205,214,537)</b>	Interest received, net of withholding tax	17,517,474	2,879,127
			Dividends received, net of withholding tax	621,037	277,202
			Interest and borrowing expense paid	(2,211,020)	(1,339,653)
			Dividends paid	(373,352)	(45,448)

Net of non-cash transfers and switches of \$1,841,789 (2020 - \$247,274)



# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2021 (unaudited)

CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	
<b>LONG POSITIONS (110.8%)</b>										
<b>Canadian Equities (1.8%)</b>										
<b>Financials (1.8%)</b>										
	140,600	Element Financial Corp., Preferred Series C	3,225,961	3,620,450	USD	5,650,000	Intertape Polymer Group Inc. 4.375%, 2029-06-15	6,844,060	7,110,390	
	283,500	Element Fleet Management Corp., Preferred	6,414,578	7,300,124	CAD	6,290,000	Keyera Corp. 6.875%, 2079-06-13	6,429,500	6,984,792	
	94,500	Element Fleet Management Corp., Preferred Series A	2,149,450	2,466,450	CAD	8,025,000	Keyera Corp. 5.950%, 2081-03-10	8,150,842	8,301,718	
	50,700	Element Fleet Management Corp., Preferred Series I	1,102,599	1,297,920	CAD	10,330,000	Mattamy Group Corp. 4.625%, 2028-03-01	10,388,235	10,552,956	
			<u>12,892,588</u>	<u>14,684,944</u>	USD	11,550,000	MDC Partners Inc. 7.500%, 2024-05-01	14,163,334	14,499,000	
					CAD	490,000	National Bank of Canada 4.300%, 2080-11-15	506,204	508,390	
		<b>Total Canadian Equities - Long</b>	<b>12,892,588</b>	<b>14,684,944</b>	CAD	11,500,000	NuVista Energy Ltd. 6.500%, 2023-03-02	9,754,985	11,466,458	
<b>Canadian Debt (36.6%)</b>										
<b>Government Bonds (0.1%)</b>										
CAD	1,280,000	Canadian Government Bond 1.250%, 2030-06-01	1,250,310	1,270,761	CAD	16,200,000	Parkland Corp. 3.875%, 2026-06-16	16,224,325	16,378,875	
<b>Corporate Bonds (36.5%)</b>										
CAD	13,660,000	AutoCanada Inc. 8.750%, 2025-02-11	14,117,329	14,764,183	CAD	3,500,000	Parkland Corp. 6.500%, 2027-01-21	3,664,581	3,759,948	
CAD	3,000,000	AutoCanada Inc. 8.750%, 2025-02-11	3,198,750	3,247,500	CAD	12,250,000	Parkland Corp. 6.000%, 2028-06-23	12,540,051	13,172,833	
USD	900,000	Bank of Nova Scotia 0.324%, 2085-08-31	960,337	966,858	CAD	10,200,000	Parkland Corp. 4.375%, 2029-03-26	10,201,490	10,374,250	
USD	600,000	Canadian Imperial Bank of Commerce 0.500%, 2084-07-31	653,633	648,679	USD	6,350,000	Royal Bank of Canada 0.500%, 2085-06-29	6,608,849	6,823,915	
CAD	8,025,000	Canadian Western Bank 6.000%, 2081-04-30	8,205,402	8,605,119	CAD	6,000,000	Russel Metals Inc. 5.750%, 2025-10-27	6,016,712	6,382,500	
USD	2,495,000	Cascades Inc. 5.375%, 2028-01-15	3,122,093	3,251,755	CAD	14,000,000	Secure Energy Services Inc. 7.250%, 2026-12-30	14,031,875	14,148,750	
CAD	1,594,000	Chemtrade Logistics Income Fund 5.000%, 2023-08-31	1,346,841	1,592,008	CAD	13,200,000	Superior Plus LP 4.250%, 2028-05-18	13,200,749	13,499,750	
CAD	70,000	Chemtrade Logistics Income Fund 4.750%, 2024-05-31	65,935	68,072	USD	15,795,000	Tervita Corp. 11.000%, 2025-12-01	21,687,508	21,939,825	
CAD	1,100,000	Clarity Trust 6.420%, 2023-04-17	1,100,000	1,100,000	USD	7,193,000	Trulieve Cannabis Corp. 9.750%, 2024-06-18	9,842,174	9,307,897	
CAD	15,100,000	Corus Entertainment Inc. 5.000%, 2028-05-11	15,106,719	15,251,000	CAD	4,475,000	Videotron Ltd. 4.500%, 2030-01-15	<u>4,574,701</u>	<u>4,686,630</u>	
CAD	9,675,000	Doman Building Materials Group Ltd. 5.250%, 2026-05-15	9,675,000	9,667,550					<u>307,827,717</u>	<u>315,143,362</u>
USD	9,000,000	First Quantum Minerals Ltd. 7.250%, 2023-04-01	12,084,608	11,374,598					<b>Total Canadian Debt - Long</b>	<b>309,078,027</b>
USD	11,375,000	First Quantum Minerals Ltd. 7.500%, 2025-04-01	14,944,330	14,650,968					<b>Global Debt (72.2%)</b>	<b>316,414,123</b>
USD	7,150,000	First Quantum Minerals Ltd. 6.875%, 2026-03-01	9,469,349	9,285,456					<b>United States Bonds (57.4%)</b>	
USD	4,750,000	First Quantum Minerals Ltd. 6.875%, 2027-10-15	6,518,892	6,416,876	USD	11,795,000	Abercrombie & Fitch Management Co. 8.750%, 2025-07-15	16,395,012	16,211,625	
CAD	1,100,000	Fusion Trust 6.420%, 2023-04-17	1,100,000	1,100,000	USD	4,860,000	Adient US LLC 9.000%, 2025-04-15	6,748,128	6,643,894	
CAD	14,940,000	Inter Pipeline Ltd. 6.875%, 2079-03-26	15,898,908	16,653,527	USD	12,005,000	Boyd Gaming Corp. 8.625%, 2025-06-01	16,550,485	16,406,159	
CAD	15,070,000	Inter Pipeline Ltd. 6.625%, 2079-11-19	15,429,416	16,600,336	USD	15,821,000	Builders FirstSource Inc. 6.750%, 2027-06-01	22,195,446	21,041,444	
					USD	7,350,000	Carriage Services Inc. 4.250%, 2029-05-15	9,036,145	9,099,762	
					USD	2,127,000	CCO Holdings LLC / CCO Holdings Capital Corp. 5.750%, 2026-02-15	2,805,821	2,728,429	
					USD	16,830,000	Centene Corp. 4.625%, 2029-12-15	22,782,256	22,945,870	
					USD	17,609,000	Cleveland-Cliffs Inc. 9.875%, 2025-10-17	25,999,592	25,583,158	

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2021 (unaudited)

CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
USD	9,545,000	Cleveland-Cliffs Inc. 6.750%, 2026-03-15	13,072,461	12,765,120					
USD	12,595,000	Covanta Holding Corp. 5.000%, 2030-09-01	16,531,029	16,418,761					
USD	14,525,000	CSC Holdings LLC 7.500%, 2028-04-01	20,437,751	19,793,271					
USD	5,300,000	CSC Holdings LLC 4.625%, 2030-12-01	6,264,349	6,447,209					
USD	6,561,000	Cushman & Wakefield US Borrower LLC 6.750%, 2028-05-15	8,663,098	8,783,409					
USD	11,599,000	Freeport Minerals Corp. 7.125%, 2027-11-01	17,288,920	17,592,975					
USD	8,037,000	Freeport Minerals Corp. 9.500%, 2031-06-01	14,031,422	14,799,272					
USD	11,397,000	Freeport Minerals Corp. 6.125%, 2034-03-15	17,306,066	17,733,261					
USD	9,380,000	FXI Holdings Inc. 12.250%, 2026-11-15	13,371,648	13,410,313					
USD	460,000	Gap Inc. 8.625%, 2025-05-15	649,905	625,613					
USD	8,320,000	Goodyear Tire & Rubber Co. 9.500%, 2025-05-31	11,757,833	11,557,296					
USD	12,925,000	Great Lakes Dredge & Dock Corp. 5.250%, 2029-06-01	16,015,057	16,531,567					
USD	6,750,000	Horizon Therapeutics USA Inc. 5.500%, 2027-08-01	9,192,121	8,887,188					
USD	15,484,000	Jaguar Holding Co II / PPD Development LP 5.000%, 2028-06-15	20,707,036	20,821,221					
USD	2,490,000	L Brands Inc. 5.625%, 2023-10-15	3,440,353	3,395,830					
USD	14,105,000	L Brands Inc. 9.375%, 2025-07-01	22,246,572	22,621,953					
USD	14,054,000	Macy's Inc. 8.375%, 2025-06-15	19,168,815	19,207,824					
USD	5,872,000	Magellan Health Inc. 4.400%, 2024-09-22	8,046,560	8,103,376					
USD	7,844,000	NCR Corp. 8.125%, 2025-04-15	10,763,934	10,640,822					
USD	18,025,000	NRG Energy Inc. 6.625%, 2027-01-15	23,554,699	23,134,345					
USD	8,900,000	Olin Corp. 9.500%, 2025-06-01	13,793,835	13,735,565					
USD	2,230,000	QEP Resources Inc. 5.625%, 2026-03-01	3,226,225	3,079,657					
USD	4,983,000	Schweitzer-Mauduit International Inc. 6.875%, 2026-10-01	6,755,261	6,554,179					
USD	1,411,600	Syneos Health Inc. 3.625%, 2029-01-15	1,731,488	1,730,764					
USD	10,060,000	TransDigm Inc. 8.000%, 2025-12-15	13,947,574	13,494,845					
USD	12,674,000	Tutor Perini Corp. 6.875%, 2025-05-01	16,362,898	16,176,786					
USD	9,980,000	US Concrete Inc. 5.125%, 2029-03-01	13,239,197	13,539,351					
USD	9,875,000	WESCO Distribution Inc. 7.250%, 2028-06-15	13,508,034	13,636,698					
USD	14,582,000	WR Grace & Co-Conn 4.875%, 2027-06-15	18,657,748	19,168,263					
			<u>496,244,774</u>	<u>495,047,075</u>					
							<b>International Bonds (14.8%)</b>		
USD	1,990,000	Bank of Scotland PLC 0.438%, 2049-12-31			USD	13,630,000	Barclays Bank PLC 0.438%, 2049-12-31	2,239,986	2,403,347
USD	14,650,000	Barclays Bank PLC 0.500%, 2049-12-31			USD	1,500,000	Barclays Bank PLC 0.448%, 2049-12-31	15,427,252	16,255,627
USD	6,550,000	HSBC Bank PLC 0.600%, 2049-12-31			USD	6,550,000	HSBC Bank PLC 0.600%, 2049-12-31	16,309,198	17,464,714
USD	2,020,000	HSBC Bank PLC 0.750%, 2049-12-31			USD	1,500,000	Hongkong & Shanghai Banking Corp. Ltd. 0.448%, 2049-12-31	1,524,783	1,746,964
USD	7,450,000	HSBC Bank PLC 0.750%, 2049-12-31			USD	6,550,000	HSBC Bank PLC 0.600%, 2049-12-31	6,801,263	7,626,310
GBP	1,950,000	Standard Chartered PLC 0.248%, 2049-12-31			USD	2,020,000	HSBC Bank PLC 0.750%, 2049-12-31	2,211,601	2,353,757
USD	15,630,000	Standard Chartered PLC 0.713%, 2049-12-31			USD	7,450,000	HSBC Bank PLC 0.750%, 2049-12-31	8,085,285	8,671,063
USD	3,450,000	Standard Chartered PLC 2.938%, 2049-12-31			USD	15,630,000	Standard Chartered PLC 0.713%, 2049-12-31	2,912,314	3,105,616
USD	400,000	Standard Chartered PLC 3.025%, 2049-12-31			USD	3,450,000	Standard Chartered PLC 2.938%, 2049-12-31	17,538,458	18,042,855
USD	12,210,000	Standard Chartered PLC 3.188%, 2049-12-31			USD	400,000	Standard Chartered PLC 3.025%, 2049-12-31	435,155	462,115
EUR	5,950,000	Stichting AK Rabobank Certificaten 6.500%, 2049-12-31			USD	12,210,000	Standard Chartered PLC 3.188%, 2049-12-31	13,710,965	14,108,828
USD	15,026,000	TransDigm UK Holdings PLC 6.875%, 2026-05-15			EUR	5,950,000	Stichting AK Rabobank Certificaten 6.500%, 2049-12-31	11,660,415	11,784,665
					USD	15,026,000	TransDigm UK Holdings PLC 6.875%, 2026-05-15	19,839,494	19,686,133
								<u>122,543,805</u>	<u>127,697,607</u>
							<b>Total Global Debt - Long</b>	<b>618,788,579</b>	<b>622,744,682</b>
							<b>Options (0.2%)</b>		
							<b>Total Purchased Options - Refer to Appendix A</b>	<b>2,119,092</b>	<b>1,823,563</b>
							<b>Transaction Costs</b>	<b>(486,509)</b>	<b>-</b>
							<b>Total Long Positions</b>	<b>942,391,777</b>	<b>955,667,312</b>
							<b>SHORT POSITIONS (-24.2%)</b>		
							<b>Canadian Debt (-1.9%)</b>		
							<b>Government Bonds (-0.2%)</b>		
CAD	(1,300,000)	Canadian Government Bond 1.000%, 2027-06-01						(1,346,864)	(1,293,657)
							<b>Corporate Bonds (-1.7%)</b>		
USD	(6,200,000)	1011778 BC ULC / New Red Finance Inc. 4.000%, 2030-10-15			USD	(6,200,000)	1011778 BC ULC / New Red Finance Inc. 4.000%, 2030-10-15	(7,735,031)	(7,437,528)
USD	(5,700,000)	GFL Environmental Inc. 4.750%, 2029-06-15			USD	(5,700,000)	GFL Environmental Inc. 4.750%, 2029-06-15	(7,139,866)	(7,306,751)
								<u>(14,874,897)</u>	<u>(14,744,279)</u>
							<b>Total Canadian Debt - Short</b>	<b>(16,221,761)</b>	<b>(16,037,936)</b>

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2021 (unaudited)

CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)	CCY*	No. of shares/ units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
	<b>Global Equities (0.0%)</b>								
	<b>International Index Equivalents (0.0%)</b>								
	(2,500)	iShares iBoxx \$ High Yield Corporate Bond ETF	(267,080)	(272,550)	USD	(5,450,000)	TransDigm Inc. 4.625%, 2029-01-15	(6,828,676)	(6,770,928)
		<b>Total Global Equities - Short</b>	<b>(267,080)</b>	<b>(272,550)</b>	USD	(5,445,000)	Tronox Inc. 4.625%, 2029-03-15	(6,842,140)	(6,826,747)
	<b>Global Debt (-22.2%)</b>								
	<b>United States Bonds (-20.8%)</b>								
USD	(3,250,000)	Allison Transmission Inc. 3.750%, 2031-01-30	(4,268,003)	(3,960,560)	USD	(5,450,000)	United Rentals North America Inc. 4.875%, 2028-01-15	(7,191,368)	(7,170,925)
USD	(5,450,000)	Aramark Services Inc. 5.000%, 2028-02-01	(7,218,879)	(7,060,853)	USD	(5,445,000)	US Foods Inc. 4.750%, 2029-02-15	(6,809,683)	(6,886,115)
USD	(5,190,000)	Avis Budget Car Rental LLC 4.750%, 2028-04-01	(6,636,115)	(6,607,038)	USD	(4,135,000)	Yum! Brands Inc. 3.625%, 2031-03-15	(5,336,923)	(5,101,161)
USD	(5,450,000)	Cheniere Energy Partners LP 4.500%, 2029-10-01	(7,099,084)	(7,263,315)	USD	(5,450,000)	Zayo Group Holdings Inc. 6.125%, 2028-03-01	(7,007,562)	(6,901,516)
USD	(5,450,000)	CHS/Community Health Systems Inc. 6.000%, 2029-01-15	(7,226,490)	(7,230,077)			<b>International Bonds (-1.4%)</b>		
USD	(5,700,000)	Clarivate Science Holdings Corp. 4.875%, 2029-06-30	(7,029,346)	(7,252,402)	USD	(5,000,000)	Altice Financing SA 5.000%, 2028-01-15	(6,226,073)	(6,086,142)
USD	(6,345,000)	Cleveland-Cliffs Inc. 4.875%, 2031-03-01	(7,899,898)	(8,259,987)	USD	(4,710,000)	Altice France SA 5.500%, 2028-01-15	(6,066,365)	(6,059,555)
USD	(5,445,000)	CommScope Technologies LLC 5.000%, 2027-03-15	(6,798,962)	(6,911,096)			<b>Total Global Debt - Short</b>	<b>(12,292,438)</b>	<b>(12,145,697)</b>
USD	(5,340,000)	Diversified Healthcare Trust 4.750%, 2028-02-15	(6,610,173)	(6,523,540)			<b>Options (-0.1%)</b>		
USD	(3,705,000)	Element Solutions Inc. 3.875%, 2028-09-01	(4,807,226)	(4,687,750)			<b>Total Written Options - Refer to Appendix A</b>	<b>(1,027,609)</b>	<b>(966,554)</b>
USD	(5,600,000)	EPR Properties 3.750%, 2029-08-15	(6,746,353)	(6,961,442)			<b>Transaction Costs</b>	<b>(101,511)</b>	<b>-</b>
USD	(5,190,000)	Gray Television Inc. 4.750%, 2030-10-15	(6,685,954)	(6,412,500)			<b>Total Short Positions</b>	<b>(210,134,109)</b>	<b>(208,493,365)</b>
USD	(2,255,000)	H&E Equipment Services Inc. 3.875%, 2028-12-15	(2,913,065)	(2,751,175)			<b>Foreign Currency Forward Contracts (-1.7%)</b>		
USD	(2,225,000)	Hilton Domestic Operating Co Inc. 3.625%, 2032-02-15	(2,799,517)	(2,724,465)			<b>Total Currency Hedge - Refer to Appendix B</b>	<b>-</b>	<b>(14,251,020)</b>
USD	(2,100,000)	Lamar Media Corp. 3.625%, 2031-01-15	(2,673,521)	(2,547,117)			<b>TOTAL INVESTMENT PORTFOLIO (84.9%)</b>	<b>732,257,668</b>	<b>732,922,927</b>
USD	(3,900,000)	Level 3 Financing Inc. 3.625%, 2029-01-15	(5,052,761)	(4,667,193)			Other Assets Net of Liabilities (15.1%)		129,376,611
USD	(3,460,000)	Lumen Technologies Inc. 4.500%, 2029-01-15	(4,543,701)	(4,186,825)			<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (100.0%)</b>		<b>862,299,538</b>
USD	(5,450,000)	Nexstar Broadcasting Inc. 4.750%, 2028-11-01	(6,892,915)	(6,942,750)					
USD	(5,190,000)	Olin Corp. 5.625%, 2029-08-01	(6,997,515)	(7,129,894)					
USD	(4,450,000)	Paysafe Finance PLC 4.000%, 2029-06-15	(5,352,991)	(5,448,434)					
USD	(5,450,000)	Prime Security Services Borrower LLC 6.250%, 2028-01-15	(7,098,576)	(7,187,527)					
USD	(4,160,000)	Spectrum Brands Inc. 3.875%, 2031-03-15	(5,189,585)	(5,079,485)					
USD	(3,690,000)	Spirit AeroSystems Inc. 4.600%, 2028-06-15	(4,533,185)	(4,489,471)					
USD	(5,450,000)	Targa Resources Partners LP 5.000%, 2028-01-15	(7,133,543)	(7,128,340)					

\*CCY denotes local currency of debt security

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## APPENDIX A

### OPTIONS (0.1%)

Issuer	Option Type	Number of Options	Strike \$	Expiry	Average Cost \$	Fair Value \$
Canadian Western Bank	Call Option	983	\$36	July, 2021	38,091	14,745
					<u>38,091</u>	<u>14,745</u>
IMM Euro\$ Futures	Put Option	1,975	\$99	December, 2022	448,754	550,270
IMM Euro\$ Futures	Put Option	3,808	\$99	September, 2022	358,293	707,319
iShares iBoxx High Yield Corp. Bond	Put Option	6,234	\$85	August, 2021	383,986	196,849
iShares iBoxx High Yield Corp. Bond	Put Option	12,117	\$86	July, 2021	423,375	112,534
iShares MSCI Taiwan	Put Option	2,077	\$56	September, 2021	194,065	147,887
S&P E-Mini 1st Week	Put Option	493	\$4,150	July, 2021	106,257	10,683
US Bond Futures	Put Option	538	\$156	July, 2021	166,271	83,276
					<u>2,081,001</u>	<u>1,808,818</u>
<b>Total Purchased Options</b>					<b><u>2,119,092</u></b>	<b><u>1,823,563</u></b>
iShares iBoxx High Yield Corp. Bond	Written Call Option	(2,334)	\$87	July, 2021	(136,371)	(296,245)
iShares iBoxx High Yield Corp. Bond	Written Call Option	(2,078)	\$88	August, 2021	(60,951)	(54,037)
					<u>(197,322)</u>	<u>(350,282)</u>
IMM Euro\$ Futures	Written Put Option	(3,808)	\$98	September, 2022	(117,883)	(206,301)
IMM Euro\$ Futures	Written Put Option	(1,975)	\$99	December, 2022	(124,408)	(290,420)
iShares iBoxx High Yield Corp. Bond	Written Put Option	(8,312)	\$75	August, 2021	(284,019)	(56,610)
iShares iBoxx High Yield Corp. Bond	Written Put Option	(4,717)	\$80	July, 2021	(54,264)	(8,762)
iShares iBoxx High Yield Corp. Bond	Written Put Option	(7,400)	\$82	July, 2021	(68,714)	(22,909)
iShares MSCI Taiwan	Written Put Option	(2,077)	\$30	September, 2021	(49,082)	(12,121)
S&P E-Mini 1st Week	Written Put Option	(493)	\$3,900	July, 2021	(91,285)	(4,579)
US Bond Futures	Written Put Option	(323)	\$150	July, 2021	(24,283)	(6,250)
US Bond Futures	Written Put Option	(215)	\$153	July, 2021	(16,349)	(8,320)
					<u>(830,287)</u>	<u>(616,272)</u>
<b>Total Written Options</b>					<b><u>(1,027,609)</u></b>	<b><u>(966,554)</u></b>

## APPENDIX B

### FOREIGN EXCHANGE FORWARD CONTRACTS (-1.7%)

Purchased Currency	Sold Currency	Forward Rate	Maturity Date	Fair Value (\$)	Counterparty	Credit Rating
CAD \$4,915,680	EUR \$3,325,000	1.47840	2021-08-05	29,103	Canadian Imperial Bank of Commerce	A-1
CAD \$4,293,285	EUR \$2,915,000	1.47283	2021-08-05	9,266	Canadian Imperial Bank of Commerce	A-1
<b>Unrealized gain on foreign exchange forward contracts at fair value</b>				<b><u>38,369</u></b>		
USD \$9,576,000	CAD \$11,861,121	0.80734	2021-08-12	(2,926)	Canadian Imperial Bank of Commerce	A-1
CAD \$3,490,485	USD \$2,892,000	1.20695	2021-08-12	(90,728)	Canadian Imperial Bank of Commerce	A-1
CAD \$30,335,800	USD \$25,000,000	1.21343	2021-08-12	(622,162)	Canadian Imperial Bank of Commerce	A-1
CAD \$24,110,880	USD \$20,000,000	1.20554	2021-08-12	(655,452)	Canadian Imperial Bank of Commerce	A-1
CAD \$42,264,600	USD \$35,000,000	1.20756	2021-08-12	(1,076,498)	Canadian Imperial Bank of Commerce	A-1
CAD \$485,613,996	USD \$401,719,000	1.20884	2021-08-12	(11,841,623)	Canadian Imperial Bank of Commerce	A-1
<b>Unrealized loss on foreign exchange forward contracts at fair value</b>				<b><u>(14,289,389)</u></b>		
<b>Net unrealized gain (loss) on foreign exchange forward contracts at fair value</b>				<b><u>(14,251,020)</u></b>		

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES

As at June 30, 2021 (unaudited)

### 1. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following tables illustrate the classifications of the Fund's financial instruments within the fair value hierarchy as at June 30, 2021 and December 31, 2020.

ASSETS (LIABILITIES) AT FAIR VALUE AS AT JUNE 30, 2021				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities - Long	14,684,944	-	-	14,684,944
Bonds - Long	-	936,958,805	2,200,000	939,158,805
Options - Long	1,823,563	-	-	1,823,563
Forward Contracts - Long	-	38,369	-	38,369
Equities - Short	(272,550)	-	-	(272,550)
Bonds - Short	-	(207,254,261)	-	(207,254,261)
Options - Short	(966,554)	-	-	(966,554)
Forward Contracts - Short	-	(14,289,389)	-	(14,289,389)
<b>Total</b>	<b>15,269,403</b>	<b>715,453,524</b>	<b>2,200,000</b>	<b>732,922,927</b>

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2020				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities - Long	23,798,360	-	-	23,798,360
Bonds - Long	-	550,714,279	-	550,714,279
Options - Long	630,266	-	-	630,266
Forward Contracts - Long	-	6,081,727	-	6,081,727
Equities - Short	(20,616,023)	-	-	(20,616,023)
Bonds - Short	-	(117,708,640)	-	(117,708,640)
Options - Short	(273,558)	-	-	(273,558)
Forward Contracts - Short	-	(3,534)	-	(3,534)
<b>Total</b>	<b>3,539,045</b>	<b>439,083,832</b>	<b>-</b>	<b>442,622,877</b>

### 2. RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS

The following tables reconcile the Fund's Level 3 fair value measurements for the period ended June 30, 2021 and December 31, 2020.

June 30, 2021	Debt Instruments - Long \$	Debt Instruments - Short \$	Total \$
<b>Balance at Beginning of Period</b>	-	-	-
Investment purchases during the period	2,200,000	-	2,200,000
Proceeds from sales during the period	-	-	-
Transfers in during the period	-	-	-
Transfers out during the period	-	-	-
Net realized gain (loss) on sale of investments	-	-	-
Change in unrealized appreciation (depreciation) in value of investments	-	-	-
<b>Balance at End of Period</b>	<b>2,200,000</b>	<b>-</b>	<b>2,200,000</b>
<b>Total change in unrealized appreciation (depreciation) for assets held as at June 30, 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>

During the period ended June 30, 2021, certain securities held long were classified as Level 3. The Fund's long Level 3 securities consist of debt instruments which were measured at the transaction price as determined at the time of purchase. If there was a 5% increase or decrease in the price of level 3 securities, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased, respectively, by approximately \$110,000 as at June 30, 2021 (December 31, 2020 - \$0). Transfers between levels on the fair value hierarchy table are deemed to have occurred at the beginning of the reporting period.

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES (CONTINUED)

June 30, 2021							
Security Name	Fair Value	Valuation Technique	Unobservable Inputs	Reasonable Shift (+)	Reasonable Shift (-)	Change in Valuation (+)	Change in Valuation (-)
Clarity Trust Series D Medium Term Note 6.42%, 2023-04-17	1,100,000	Private valuation	Broker quote	5%	5%	\$55,000	\$(55,000)
Fusion Trust Series D Medium Term Note 6.42%, 2023-04-17	1,100,000	Private valuation	Broker quote	5%	5%	\$55,000	\$(55,000)

### 3. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following table shows the net impact of the Fund's statement of financial position if all set-off rights were exercised.

Financial Assets and Liabilities	Amounts Eligible for Offset			
	Gross Assets / (Liabilities) \$	Financial Instruments \$	Collateral received/paid \$	Net \$
<b>June 30, 2021</b>				
Derivative assets - Foreign exchange forward contracts	38,369	(38,369)	-	-
Derivative liabilities - Foreign exchange forward contracts	(14,289,389)	38,369	-	(14,251,020)
<b>December 31, 2020</b>				
Derivative assets - Foreign exchange forward contracts	6,081,727	(3,534)	-	6,078,193
Derivative liabilities - Foreign exchange forward contracts	(3,534)	3,534	-	-

### 4. SECURITIES LENDING TRANSACTIONS

The Fund has entered into a securities lending program with its custodian, RBC Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral consists primarily of fixed income securities. As at June 30, 2021, there was \$nil (Collateral - \$nil) of securities on loan (December 31, 2020 - \$nil (Collateral - \$nil) of securities on loan.

Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian is entitled to receive. For the six month periods ended June 30, securities lending income were as follows:

	June 30, 2021 (\$)	June 30, 2020 (\$)
Gross securities lending income	-	610
Securities lending charges	-	(214)
<b>Net securities lending income</b>	<b>-</b>	<b>396</b>
Withholding taxes on securities lending income	-	-
<b>Net securities lending income received by the Fund</b>	<b>-</b>	<b>396</b>
Security lending charges percentage of gross securities lending income	-	35%

### 5. OTHER PRICE RISK

Using Beta as a measure of the relationship of the Fund's performance against the blended index consisting of 75% ICE BofAML Global High Yield Index (Hedged to CAD) and 25% BofAML Global Corporate Index (Hedged to CAD) (the Index), if the Index were to increase or decrease by 10%, net assets would have increased or decreased by approximately \$55,276,963 (December 31, 2020 - \$67,695,159). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

The COVID-19 (coronavirus disease) pandemic has caused volatility in global financial markets as well as significant disruptions to global business activity. The continued impact of unanticipated market disruptions, including COVID-19 is uncertain and may exacerbate pre-existing political, social or economic risk, and may disproportionately affect certain issuers, industries or types of securities. Such unanticipated market and economic disruptions, including COVID-19, may be short-term or may last for an extended period of time, and could have effects that cannot necessarily be presently foreseen.

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 6. CURRENCY RISK

Foreign currencies to which the Fund had exposure as at June 30, 2021 and December 31, 2020 were as follows:

FINANCIAL INSTRUMENTS					
June 30, 2021 Currency	Monetary \$	Non-Monetary \$	Forward Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	592,664,365	(272,549)	(588,235,841)	4,155,975	0.50%
British Pound	3,107,687	-	-	3,107,687	0.40%
Euro	11,299,669	-	(9,163,440)	2,136,229	0.20%
<b>Net Exposure</b>	<b>607,071,721</b>	<b>(272,549)</b>	<b>(597,399,281)</b>	<b>9,399,891</b>	<b>1.1%</b>

FINANCIAL INSTRUMENTS					
December 31, 2020 Currency	Monetary \$	Non-Monetary \$	Forward Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	321,847,133	(15,720,235)	(302,448,874)	3,678,024	0.8%
British Pound	2,239,222	-	-	2,239,222	0.5%
Euro	(5,533)	-	-	(5,533)	0.0%
<b>Net Exposure</b>	<b>324,080,822</b>	<b>(15,720,235)</b>	<b>(302,448,874)</b>	<b>5,911,713</b>	<b>1.3%</b>

If the Canadian dollar had strengthened or weakened by 5% in relation to all other currencies held in the investment portfolio, net assets would have decreased or increased by approximately \$469,995 (December 31, 2020 - \$295,586). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

### 7. INTEREST RATE RISK

If the yield curve had shifted in parallel by 1%, with all other variables held constant, net assets will increase or decrease by \$15,946,199 (December 31, 2020 - \$4,794,850). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

As at June 30, 2021 and December 31, 2020, the Fund's exposure to debt instruments by maturity were as follows:

Debt Instruments by Maturity Date	June 30, 2021 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	-	-	-
1-3 years	53,903,862	-	53,903,862
3-5 years	315,585,112	-	315,585,112
Greater than 5 years	569,669,831	(207,254,261)	362,415,570
<b>Total</b>	<b>939,158,805</b>	<b>(207,254,261)</b>	<b>731,904,544</b>

Debt Instruments by Maturity Date	December 31, 2020 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	4,937,872	-	4,937,872
1-3 years	48,013,352	-	48,013,352
3-5 years	192,089,226	-	192,089,226
Greater than 5 years	305,673,829	(117,708,640)	187,965,189
<b>Total</b>	<b>550,714,279</b>	<b>(117,708,640)</b>	<b>433,005,639</b>

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 8. CREDIT RISK

The following tables show debt as a percentage of net assets attributable to holders of redeemable units held under each credit rating. All counterparties to derivative contracts had a credit rating of A- or higher as at June 30, 2021 and December 31, 2020.

June 30, 2021				December 31, 2020			
Bond Ratings	Net	Long	Short	Bond Ratings	Net	Long	Short
AAA	0.00%	0.15%	-0.15%	AAA	-1.05%	0.00%	-1.05%
A	0.00%	0.00%	0.00%	A	0.34%	0.34%	0.00%
A-	0.20%	0.20%	0.00%	A-	2.08%	2.08%	0.00%
BBB+	0.79%	0.79%	0.00%	BBB+	0.75%	0.75%	0.00%
BBB	2.55%	2.55%	0.00%	BBB	3.66%	3.66%	0.00%
BBB-	7.70%	7.70%	0.00%	BBB-	13.90%	13.90%	0.00%
BB+	16.58%	17.39%	-0.81%	BB+	15.73%	17.42%	-1.69%
BB	13.56%	18.29%	-4.73%	BB	18.98%	22.54%	-3.56%
BB-	13.88%	17.75%	-3.87%	BB-	7.14%	14.65%	-7.51%
B+	9.36%	14.07%	-4.71%	B+	0.35%	8.05%	-7.70%
B	14.38%	18.77%	-4.39%	B	11.33%	12.42%	-1.09%
B-	3.24%	5.71%	-2.47%	B-	5.70%	6.55%	-0.85%
CCC+	-0.42%	2.54%	-2.96%	CCC+	5.74%	6.30%	-0.56%
CCC	0.00%	0.00%	0.00%	CCC	1.60%	1.60%	0.00%
NR	2.89%	2.89%	0.00%	NR	2.04%	2.04%	0.00%

The above credit ratings are obtained and disclosed from the rating services in the following hierarchical order: 1) Standard & Poor's; 2) Moody's; 3) Dominion Bond Rating Service, using first available. All cash is held with a financial institution with a minimum credit rating of A+.

### 9. CONCENTRATION RISK

The table below summarizes the Fund's concentration risk as a percentage of net assets attributable to holders of redeemable units as at June 30, 2021 and December 31, 2020.

Jurisdiction	% of Net Assets	
	June 30, 2021	December 31, 2020
<b>LONG POSITIONS</b>	<b>110.8%</b>	<b>118.6%</b>
<b>Corporate Bonds</b>	<b>108.7%</b>	<b>110.2%</b>
Canada	36.5%	45.0%
United States	57.4%	44.8%
International	14.8%	20.4%
<b>Government Bonds</b>	<b>0.1%</b>	<b>0.0%</b>
Canada	0.1%	0.0%
<b>Asset-Backed Securities</b>	<b>0.0%</b>	<b>2.2%</b>
Canada	0.0%	2.2%
<b>Canadian Equities</b>	<b>1.8%</b>	<b>4.4%</b>
Financials	1.8%	4.0%
Energy	0.0%	0.4%
<b>United States Equities</b>	<b>0.0%</b>	<b>0.5%</b>
Financials	0.0%	0.5%
<b>Derivatives</b>	<b>0.2%</b>	<b>1.3%</b>



# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES (CONTINUED)

Jurisdiction	% of Net Assets	
	June 30, 2021	December 31, 2020
<b>SHORT POSITIONS</b>	<b>-25.9%</b>	<b>-28.3%</b>
<b>Corporate Bonds</b>	<b>-23.9%</b>	<b>-23.0%</b>
Canada	-1.7%	-1.7%
United States	-20.8%	-20.8%
International	-1.4%	-0.5%
<b>Government Bonds</b>	<b>-0.2%</b>	<b>-1.0%</b>
Canada	-0.2%	-1.0%
<b>Canadian Equities</b>	<b>0.0%</b>	<b>-0.5%</b>
Financials	0.0%	-0.5%
<b>International Equities</b>	<b>0.0%</b>	<b>-3.7%</b>
Index Equivalents	0.0%	-3.7%
<b>Derivatives</b>	<b>-1.8%</b>	<b>-0.1%</b>

## 10. LIQUIDITY RISK

The tables below categorize the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the tables are the contractual undiscounted cash flows. Amounts due to holders of redeemable units are disclosed as net assets attributable to holders of redeemable units on the statements of financial position and are due on demand.

June 30, 2021 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	207,526,811	-	-	207,526,811
Distributions payable	841	-	-	841
Redemptions payable	1,943,792	-	-	1,943,792
Accrued liabilities and other payables	-	10,819,118	-	10,819,118
Derivative liabilities	15,255,943	-	-	15,255,943
<b>December 31, 2020 Financial Liabilities</b>	<b>On Demand \$</b>	<b>&lt; 3 months \$</b>	<b>&gt; 3 months \$</b>	<b>Total \$</b>
Short positions	138,324,663	-	-	138,324,663
Distributions payable	81,783	-	-	81,783
Redemptions payable	39,197	-	-	39,197
Accrued liabilities and other payables	-	2,251,960	-	2,251,960
Derivative liabilities	277,092	-	-	277,092

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 11. FUND UNIT TRANSACTIONS

For the six month period ended June 30 (unaudited)

	2021				2020			
	Class A	Class F	Class I	Class ETF	Class A	Class F	Class I	Class ETF
Units issued and outstanding, beginning of period	3,042,114	24,993,629	701,015	18,300,000	532,900	3,216,845	662,915	6,250,000
Units issued	2,313,258	22,175,727	1,940,394	12,400,000	1,241,527	14,702,847	473,504	9,090,000
Units reinvested	65,276	448,058	43,747	-	11,854	96,379	11,527	-
Units redeemed	(543,033)	(2,972,845)	(129,936)	(1,100,000)	(25,999)	(654,009)	(541,298)	(2,260,000)
<b>Units issued and outstanding, end of period</b>	<b>4,877,615</b>	<b>44,644,569</b>	<b>2,555,220</b>	<b>29,600,000</b>	<b>1,760,282</b>	<b>17,362,062</b>	<b>606,648</b>	<b>13,080,000</b>
<b>Weighted average number of units held during the period</b>	<b>4,128,527</b>	<b>34,313,708</b>	<b>1,936,502</b>	<b>22,808,840</b>	<b>1,030,708</b>	<b>9,087,902</b>	<b>692,436</b>	<b>10,747,143</b>

### 12. COMMISSIONS

For the six month period ended June 30 (unaudited) (in \$000)

	2021	2020
Brokerage commissions	1,896	3,389
Soft Dollar commissions	117	70

### 13. TAX LOSS CARRY FORWARDS

As at December 31 (in \$000)

	2020
Net capital losses carry forward	-
Non-capital losses carry forward	-

### 14. LEVERAGE

During the six month period ended June 30, 2021, the Fund's aggregate exposure reached a low of 26.53% (year ended 2020 - 20.73%) and a high of 72.78% (year ended 2020 - 82.95%) of the Fund's NAV.

As at June 30, 2021, the Fund's aggregate exposure was 36.42% (December 31, 2020 - 45.43%) of the Fund's NAV. The primary source of leverage was short positions in fixed income securities.

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2021 (unaudited)

### 1. GENERAL INFORMATION

Picton Mahoney Fortified Income Alternative Fund (the "Fund") is an open-ended mutual fund trust established under the laws of the Province of Ontario pursuant to a trust agreement dated September 19, 2018 and as amended and restated as of June 26, 2019 (the "Trust Declaration"). The Fund commenced operations on July 5, 2019. Picton Mahoney Asset Management acts as manager (the "Manager"), portfolio advisor (the "Portfolio Advisor"), and trustee (the "Trustee") for the Fund pursuant to the Trust Declaration. 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. The financial statements are presented in Canadian dollars (CAD). These financial statements were authorized for issue by the Manager on August 27, 2021.

On July 5, 2019, 5,001 Class A units, 5,000 Class F units, and 5,000 Class I units of the Fund were issued to the Manager of the Fund, for cash consideration of CAD \$10.00 per unit. These units are not redeemable until an additional \$500,000 has been invested by other investors in the aggregate in 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, Class I, and Class ETF units.

Class A units are available to all investors. Class F units are available to investors who are enrolled in a dealer sponsored fee for service or wrap program and who are subject to an annual asset based fee rather than commissions on each transaction or, at the discretion of the Manager, any other investor for whom the Manager does not incur distribution costs. Class I units are available to institutional investors or to other investors on a case-by-case basis, all at the discretion of the Manager. Class ETF units are listed and issued and sold on a continuous basis and will be available to investors that purchase such units on the TSX through a registered broker or dealer in the province or territory where the investor resides.

As at June 30, 2021, the Fund currently has 4 Classes of Units: Class A, Class F, and Class I and Class ETF. As at June 30, 2021, the Manager holds 5 units of Class A and 752 units of Class I.

The investment objective of the Fund is to maximize total return to unitholders through income and capital appreciation by investing primarily in global fixed income securities while mitigating capital loss through shorting and other hedging strategies. The Fund invests its assets primarily in North America but can invest up to 100% of its assets globally in long and short positions in high yield bonds, investment grade corporate bonds, government bonds, emerging market bonds, loans, convertible bonds, convertible debentures, preferred shares, options, futures, forward contracts, swaps, swaptions, short-term debt instruments, distressed debt, collateral loan obligations, mortgage-backed securities, cash and cash equivalents, equities, ETFs and other mutual funds. The Fund may engage in borrowing for investment purposes.

The Fund is considered an "alternative fund" meaning it has received exemptions from National Instrument 81-102 - Investment Funds ("NI 81-102") to permit it to use strategies generally prohibited by conventional mutual funds, such as the ability to borrow, up to 50% of the Fund's net asset value, cash to use for investment purposes; sell, up to 50% of the Fund's net asset value, securities short (the combined level of cash borrowing and short selling is limited to 50% in aggregate); and leverage up to 300% of the Fund's net asset value.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Fund.

#### (a) Basis of Preparation

These financial statements have been prepared in accordance with those requirements of International Financial Reporting Standards. 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 or loss.

#### (b) Classification

##### (i) Assets

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the 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 a borrowed security is sold in 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. 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.

#### (c) Fair Value Measurements

The Fund utilizes a three tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The three levels of the fair value hierarchy are as follows:

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

Fair values are classified as Level 1 when the related security or derivative is actually traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2021 (unaudited)

### (d) Valuation of Investments and Derivatives

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, which include equities, bonds, options, and warrants 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.

Securities not listed on any recognized public securities exchange are valued in the same manner based on available public quotations from recognized dealers in such securities. If market quotations are not readily available, securities will be valued at fair value as determined in good faith by or under the supervision of the Manager. The cost of investments represents the amount paid for each security and is determined on an average cost basis.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), 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.

Investment fund units held as investments are valued at their respective Net Asset Values on the relevant valuation dates as reported by the investment fund manager, as these values are the most readily and regularly available.

Warrants, options, and futures that are not listed on any recognized public securities exchange are valued using the Black-Scholes model and based on observable market inputs.

Foreign exchange forward contracts are valued on each valuation day based on the difference between the value of the contract on the date the contract originated and the value of the contract on the valuation day.

The difference between fair value and the average cost is shown as the change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts.

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.

*Receivable for investments sold and payable for investments purchased*

Receivable for investments sold and payable for investments purchased represent trades that have been contracted for but not yet settled or delivered

on the statements of financial position dates. These amounts are recognized initially at fair value and subsequently measured at amortized cost. At each reporting date, the Funds measure the loss allowance on receivable for investments sold and payable for investments purchased at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Funds measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganization, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by the Manager as any contractual payment which is more than 30 days past due or a significant deterioration in a counterparty credit quality. Any contractual payment which is more than 90 days past due is considered credit impaired.

### (e) Cash

Cash is comprised of cash on demand deposit with a Canadian financial institution and is stated at fair value.

### (f) Investment Transactions and Income Recognition

Investment transactions are accounted for as of the trade date. Expenses are recorded on an accrual basis. Dividend income is recorded on the ex-dividend date. The interest for distribution purposes shown on the statement of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis. Realized gains and losses on sale of investments and unrealized appreciation and depreciation in 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. Income, common expenses and gains (losses) are allocated to each Class of the Fund based on the Class' prorated share of total Net Asset Value. Interest and borrowing expense and dividend expense on short sales are included within net gains (losses) on investments and derivatives.

Distributions received from investment fund holdings are recognized by the Fund in the same form in which they were received from the underlying funds and are recognized on the distribution date.

### (g) Valuation of Fund Units

The Fund's net asset value is calculated at the close of regular trading, normally 4:00pm (Eastern Time), on a day the Toronto Stock Exchange ("TSX") is open (a "Valuation Day"). The net asset value of the Fund will be calculated in Canadian dollars and the units of the Fund are denominated in Canadian dollars.

The Fund's units are divided into the Class A, Class F, Class I, and Class ETF units. Each class is divided into units of equal value. When you invest in the Fund, you are purchasing units of a specific class of the Fund.

A separate net asset value per unit is calculated for each class of units (the "Unit Price"). The Unit Price is the price used for all purchases, switches, reclassifications and redemptions of units of that class (including purchases made on the reinvestment of distributions). The price at which units are issued or redeemed is based on the next applicable Unit Price determined after the receipt of the purchase or redemption order.

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## NOTES TO THE FINANCIAL STATEMENTS

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The Unit Price of each class of the Fund is calculated by taking the fair value of all the investments and other assets allocated to the class and subtracting the liabilities allocated to that class. This gives us the net asset value for the class. The Unit Price for the class is obtained by dividing the net asset value for the class by the total number of units of the class that investors in a Fund are holding.

Although the purchases and redemptions of units are recorded on a class basis, the assets attributable to all of the class of a Fund are pooled to create one fund for investment purposes.

Each class pays its proportionate share of fund costs in addition to its management fee and performance fee. The difference in fund costs, management fees and performance fees between each class means that each class has a different Unit Price.

Any purchase, switch, reclassification or redemption instruction received after 4:00pm (Eastern Time) on Valuation Day will be processed on the next Valuation Day.

ETF units of the Fund are available for purchase or sale on the TSX through a registered broker or dealer. The cut-off time for ETF units of the Fund is 2:00pm (Eastern Time) on a trading day.

### (h) Foreign Currency Translation

The Fund's functional and presentation currency is Canadian dollars. The fair value of foreign investments and other assets and liabilities are translated into Canadian dollars at the exchange rates prevailing at the close of each valuation day. Purchases and sales of foreign securities and the related income and expenses are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions.

Foreign exchange gains and losses relating to cash and other assets and liabilities are presented as 'Foreign currency gain (loss) on cash and other assets and liabilities' and those relating to other financial assets and liabilities are presented within 'Net realized gain (loss) on investments, options, and foreign exchange forward contracts and 'Change in unrealized appreciation (depreciation) on investments, options, and foreign exchange forward contracts.

### (i) 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 of each Class of the Fund is determined by dividing the net increase in net assets attributable to holders of redeemable units from each Class of Units by the weighted average number of Units outstanding of that Class during the year.

### (j) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchange, and transfer taxes and duties. Such costs are expensed and included in "Transaction costs" in the Statement of Comprehensive Income.

### (k) Securities Lending Transactions

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral.

Income earned from these transactions is recognized on an accrual basis and included in the Statements of Comprehensive Income.

The Fund has entered into a securities lending program with their custodian, RBC Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or a permitted supranational agency as defined in National Instrument 81-102. Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian, RBC Investor Services Trust, is entitled to receive.

### (l) Leverage

Leverage occurs when the Fund borrows money or securities, or uses derivatives, to generate investment exposure that would otherwise not be possible.

The Fund's aggregate exposure to its sources of leverage is calculated as the sum of the following: (i) the market value of short holdings; (ii) the amount of cash borrowed for investment purposes; and (iii) the notional value of the Fund's derivatives positions, excluding any derivatives used for hedging purposes. The Fund's exposure to leverage must not exceed 300% of the Fund's NAV.

The Fund has received exemptive relief from Canadian securities regulatory authorities from certain investment restrictions set out in NI 81-102 that would restrict the ability of the Fund to leverage their assets through borrowing, short sales and/or derivatives. Investment decisions may be made for the assets of the Fund that exceed the net asset value of the Fund. As a result, if these investment decisions are incorrect, the resulting losses will be more than if investments were made solely in an unleveraged long portfolio as is the case in most conventional equity mutual funds. In addition, leveraged investment strategies can also be expected to increase a Fund's turnover, transaction and market impact costs, interest and other costs and expenses.

The Fund has also obtained exemptive relief such that the Fund is permitted to engage in short selling transactions and cash borrowing up to a combined maximum of 100% of its net asset value, which is in excess of the short sale and cash borrowing limits provided for both conventional mutual funds and alternative mutual funds in NI 81-102.

### (m) Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Picton Mahoney has determined that all of the underlying funds in which the Fund invests are unconsolidated structured entities. In making this determination, Picton Mahoney evaluated the fact that decision making about the underlying funds' activities is not governed by voting or similar rights held by the Fund and other investors in any underlying funds.

The Fund may invest in underlying funds whose investment objectives range from achieving short- to long-term income and capital growth potential. Underlying funds may use leverage in a manner consistent with their respective investment objectives. Underlying funds finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportionate stake in the respective fund's net assets. The Fund's interests in underlying funds as

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## NOTES TO THE FINANCIAL STATEMENTS

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at June 30, 2021 and December 31, 2020, held in the form of redeemable units, are included at their fair value in the Statement of Financial Position, which represent the Fund's maximum exposure in these underlying funds. The Fund does not provide and has not committed to provide any additional significant financial or other support to the underlying funds. The change in fair value of each of the underlying funds during the periods is included in 'Change in unrealized appreciation (depreciation) of investments, options, and foreign exchange forward contracts' in the Statement of Comprehensive Income.

### (n) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to net the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

These financial statements, include estimates and assumptions by management that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ from these estimates. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

*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 recognized valuation techniques and may be determined using reputable pricing sources or indicative prices from market makers.

Where no market data is available, the Fund may value positions using its own models, which are 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.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), 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.

### 4. FINANCIAL INSTRUMENTS RISKS

The Fund is exposed to various financial risks, including market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk. The investment team reviews and rebalances the portfolio on a regular and ongoing basis to maintain the risk reward targets. Portfolios within each strategy are reviewed relative to each other and to their benchmark. Active industry and security allocations are analyzed. All investments may result in a risk of loss of capital.

Please refer to the Fund Specific Notes for details of the Fund's financial instruments risks.

#### Price risk:

The Fund trades in financial instruments, taking positions in traded and over-the-counter instruments which may include derivatives. As of June 30, 2021 and December 31, 2020, the Fund held or had exposure to long and short equity positions in publicly traded companies whose securities are actively traded on a recognized public exchange. Equities are susceptible to price risk arising from uncertainties about future prices of those instruments (other than those arising from interest rate risk or currency risk).

Short sales entail certain risks, including the risk that a short sale of a security may expose a Fund to losses if the value of the security increases. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. In addition, a short sale by a Fund requires the Fund to borrow securities in order that the short sale may be transacted. There is no assurance that the lender of the securities will not require the security to be paid back by a Fund before the Fund wants to do so, possibly requiring the Fund to borrow the security elsewhere or purchase the security on the market at an unattractive price. Moreover, the borrowing of securities entails the payment of a borrowing fee. The borrowing fee may increase during the borrowing period, adding to the expense of the short sale strategy. There is also no guarantee that the securities sold short can be repurchased by a Fund due to supply and demand constraints in the equity markets. Finally, in order to maintain the appropriate ratios between the long portfolio and the short portfolio of a Fund, the Manager may be required to buy or sell short securities at unattractive prices. The maximum risk resulting for financial instruments held long is determined by the fair value of the instrument.

#### Currency risk:

Currency risk is the risk that the cash and securities held by the Fund as well as due to and due from broker balances may be valued in or have exposure to currencies other than the Canadian dollar which is the functional currency of the Fund. The prices of the foreign securities are denominated in foreign currencies which are converted to the Fund's functional currency for determining fair value and, accordingly, each Class Net Asset Value will be affected by fluctuations in the value of such foreign currencies relative to the Canadian dollar. The Fund may enter into forward currency contracts to manage currency risk.

#### Interest rate risk:

Interest rate risk arises when a fund invests in interest-bearing financial instruments and from the possibility that changes in the prevailing levels of market interest rates will affect future cash flows or fair values of such financial instruments. There is minimal fair value sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates. Market prices may also be affected by changes in market interest rates. Also, changes in the market interest rate may affect the borrowing expenses of the short positions held by the Fund. Refer to Note 7 within the fund specific notes for the fund exposure.

#### Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. However, there are risks involved in dealing with custodians or prime brokers who settle trades and in rare circumstances, the securities and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical



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problems or time delays associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

The Fund is exposed to credit risk. For other financial assets at amortized cost, the Manager considers both historical analysis and forward looking information in determining any expected credit loss. At June 30, 2021 and December 31, 2020, all receivables for investments sold, dividends receivable, due from manager, due from manager, deposits with brokers for securities sold short, and cash are held with counterparties with a good credit quality and are due to be settled within one week. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

The Fund primarily invests in fixed income securities and is therefore exposed to the credit risk of the underlying fixed income portfolio. Refer to Note 8 within the fund specific notes for the fund exposure.

### Liquidity Risk:

Liquidity risk is the risk that a Fund will not be able to generate sufficient cash availability to execute its payment obligations. The Fund primarily invests in liquid securities that are readily realizable in an active market which is essential if the Fund is required to fund daily redemptions in the course of operations. The Fund from time to time may invest in restricted securities through private placements. However, this type of investment does not constitute a significant percentage of the Fund's Net Asset Value. The Fund may also maintain a cash reserve to accommodate normal-type redemptions. All liabilities of the Fund mature in one year or less. Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

### Concentration risk:

Concentration risk arises as a result of the concentration of financial instrument exposures within the same category, whether it is geographic region, asset type or industry sector.

### Leverage Risk:

The Fund has received exemptive relief from Canadian securities regulatory authorities from certain investment restrictions set out in NI 81-102 that would restrict the ability of the Fund to leverage their assets through borrowing, short sales and/or derivatives. Investment decisions may be made for the assets of the Fund that exceed the net asset value of the Fund. As a result, if these investment decisions are incorrect, the resulting losses will be more than if investments were made solely in an unleveraged long portfolio as is the case in most conventional equity mutual funds. In addition, leveraged investment strategies can also be expected to increase a Fund's turnover, transaction and market impact costs, interest and other costs and expenses.

Pursuant to the terms of the exemptive relief, the Fund's aggregate gross exposure, calculated as the sum of the following, must not exceed three times the Fund's net asset value: (i) the aggregate market value of the Fund's long positions; (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. If the Fund's aggregate gross exposure exceeds three times the Fund's net asset value, the Fund must, as quickly as is commercially reasonable, take all necessary steps to reduce the aggregate gross exposure to three times the Fund's net asset value or less.

## 5. CAPITAL MANAGEMENT

The capital of a Fund is represented by the issued and outstanding units and the net asset value attributable to participating unitholders. The Manager utilizes the capital of the Fund in accordance with the Fund's investment objectives, strategies and restrictions, as outlined in the Fund's prospectus, while maintaining sufficient liquidity to meet normal redemptions. The Fund does not have any externally imposed capital requirements.

## 6. REDEEMABLE UNIT TRANSACTIONS

The Fund is permitted to have an unlimited number of Classes of Units having such terms and conditions as the Manager may determine. Additional Classes may be offered in future on different terms, including having different fee and dealer compensation terms and different minimum subscription levels. Each Unit of a Class represents an undivided ownership interest in the Net Asset Value of the Fund attributable to that Class of Units.

Investors may be admitted to the Fund or may acquire additional Units on a daily basis. Units of the Fund are offered at the Class Net Asset Value per Unit calculated as of the applicable Valuation Date. The minimum initial investment in the Fund is \$2,000 for all Classes and the Manager has the discretion to accept a lesser initial subscription, provided, in each case, that the issuance of Units in respect of such subscription shall otherwise be exempt from the prospectus requirements of applicable securities legislation. Subsequent investments are subject to an additional minimum investment of CAD \$500 subject to applicable securities legislation. The capital of the Fund is represented by issued redeemable Units with no par value. The Units are entitled to distributions, if any, and to payment of a proportionate share based on the Fund's Net Asset Value per Unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of Units other than as described above. The relevant movements are shown on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units and in the Fund Specific Notes of each Fund.

IAS 32, Financial Instrument - Recognition and Measurement, requires that units of an entity that 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 have been classified as financial liabilities. The Fund has multiple series of units that carry different management fee rates and therefore do not have identical features. As all units are equally subordinate, the units also would not meet the requirements of IAS 32 and therefore do not meet the conditions to be classified as equity.

Generally, all orders to purchase ETF units directly from a Fund must be placed by a Designated Broker or an "ETF Dealer", which is a registered dealer (that may or may not be a Designated Broker) that has entered into an agreement with us authorizing the dealer to subscribe for, purchase and redeem ETF units from one or more Funds on a continuous basis from time to time. For each Prescribed Number of Units issued, an ETF Dealer must deliver payment consisting of, either: (i) a group of securities or assets representing the constituents of the Fund (a "Basket of Securities") for each Prescribed Number of Units for which the subscription order has been accepted and cash, in an amount sufficient so that the value of the securities and cash received is equal to the aggregate net asset value of the Prescribed Number of Units next determined following the receipt of the subscription order; or (ii) cash only, securities other than Baskets of Securities or a combination of securities other than Baskets of Securities and cash, in an amount sufficient so that the value of the securities and cash received is equal to the aggregate net asset value of the Prescribed Number of Units next determined following the receipt of the subscription order. When you redeem ETF units of a Fund, you receive the proceeds of your sale in cash at a redemption price per unit equal to 95% of the closing

# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2021 (unaudited)

trading price on the effective date of the cash redemption request, subject to a maximum redemption price of the applicable net asset value per unit. As unitholders will generally be able to sell ETF units at the market price on the TSX or another exchange or marketplace through a registered broker or dealer subject only to customary brokerage commissions.

### 7. DISTRIBUTIONS

The Fund intends to distribute net income and net realized capital gains, if any, to Unitholders at the end of each taxation year to ensure that the Fund is not liable for income tax under Part I of the Income Tax Act (Canada) (the "Act"), after taking into account any loss carry forwards and capital gains refunds.

All annual distributions paid on Class A, Class F, Class I and Class ETF units will be automatically reinvested in additional units.

### 8. TAXATION

The Fund qualifies as a "mutual fund trust" and will be subject to tax in each taxation year under Part I of the Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. The Fund deducts, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains, it will generally not be liable in such year for any tax on its net income or profit under Part I of the Tax Act. 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 Statement of Financial Position as a deferred tax asset.

Non-capital losses have expiry periods of up to 20 years and can be offset against future taxable income. Net capital losses can be carried forward indefinitely and offset against future taxable capital gains. For tax loss carry forward information, please refer to Note 13 in the Fund Specific Notes.

The Fund is required to include in income for each taxation year any dividends received by it in a taxation year and all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year. In computing its income, the Fund will take into account any loss carry-forwards, any capital gains refund and all deductible expenses, including management fees.

Gains and losses realized by the Fund on the disposition of securities will generally be reported as capital gains and capital losses. The Fund will elect under section 39(4) of the Tax Act so that all gains or losses realized on the disposition of securities that are "Canadian securities" (as defined in the Tax Act), including Canadian securities acquired in connection with short sales, will be deemed to be capital gains or losses to the Fund. Generally, gains and losses realized by the Fund from derivative securities and in respect of short sales of securities (other than Canadian securities) will be treated as income and losses of the Fund, except where a derivative is used to hedge securities held on capital account provided there is sufficient linkage and subject to detailed rules in the Tax Act. Whether gains or losses realized by the Fund in respect of a particular security (other than a Canadian security) is on income or capital account will depend largely on factual considerations. Losses incurred by the Fund in a taxation year cannot be allocated to unitholders, but may be deducted by the Fund in future years in accordance with the Tax Act.

### 9. OPERATING EXPENSES

The Manager is responsible for the day-to-day operations of the Fund. The Fund pays its own operating expenses, other than advertising costs and costs of dealer compensation programs, which are paid by the Manager. Operating expenses include, but are not limited to, brokerage commissions and fees, taxes, audit and legal fees, fees of the members of the Independent Review Committee ("IRC"), costs and fees in connection with the operation of the IRC, safekeeping and custodial fees, interest expenses, operating, administrative and systems costs, investor servicing costs and costs of financial and other reports to investors, as well as prospectuses, annual information forms and fund facts.

With the exception of Class specific expenses, all other expenses are allocated to each Class of the Fund based on the Class' pro-rated share of total Net Asset Value of the Fund. The Manager may from time to time waive any portion of the fees and reimbursement of expenses otherwise payable to it, but no such waiver affects its right to received fees and reimbursement of expenses subsequently accruing to it.

### 10. RELATED PARTY TRANSACTIONS

#### (a) Management Fees

The Manager receives a management fee payable for providing its services to the Fund. The management fee varies for each class of units. The management fee is calculated and accrued daily based on a percentage of the net asset value of the class of units of the Fund, plus applicable taxes, and is payable on the last business day of each calendar quarter. This fee differs among the classes of units of the Fund. The annual management fee payable by the Fund to the Manager on Class A units is 1.95% and on Class F units and Class ETF units is 0.95%. The management fee for Class I units of the Fund is negotiated by the investor and paid directly by the investor, and would not exceed the management fee payable on Class A units of the Fund.

#### Management Fee Distributions

The Manager may, in its discretion, agree to charge a reduced management fee as compared to the fee that the Manager otherwise would be entitled to receive from the Fund with respect to investments in the Fund by unitholders who hold a minimum amount of units during any period and/or meet other criteria as determined by the Manager from time to time. In such cases, an amount equal to the difference between the management fee otherwise chargeable and the reduced fee payable by the Fund will be distributed regularly by the Fund to those unitholders as "Management Fee Distributions". The Manager reserves the right, in its discretion, to discontinue or change Management Fee Distributions at any time.

#### (b) Performance Fees

The Manager receives a performance fee in respect of each of the Class A units, Class F, and Class ETF units of the Fund. The performance fee for each class shall be calculated and become a liability of the Fund on each Valuation Day and shall be payable at the end of each calendar quarter.

The performance fee is equal to 20% of the amount by which the performance of the applicable class exceeds an annual hurdle rate of return equal to 2%, for each of the Class A units, Class F units, or Class ETF units, plus applicable taxes. The performance fee in respect of each of the Class A units, Class F units, and Class ETF units of the Fund on a particular Valuation Day shall be equal to the product of, (a) 20% of the positive difference between (i) the Unit Price on the Valuation Day; and



# PICTON MAHONEY FORTIFIED INCOME ALTERNATIVE FUND

## NOTES TO THE FINANCIAL STATEMENTS

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As at June 30, 2021 (unaudited)

(ii) the greatest Unit Price on any previous Valuation Day or the Unit Price on the date when the units of the class were first issued, where no performance fee liability has previously arisen in respect of units of the class (the "High Water Mark"); less (iii) the hurdle amount (the "Hurdle Amount") per unit on the Valuation Day; and (b) the number of units outstanding on the applicable Valuation Day on which the performance fee is determined, plus applicable taxes.

The Hurdle Amount per unit is the product of (a) 2% for each calendar year (prorated for the number of days in the year); (b) the Unit Price on the applicable Valuation Day; and (c) the number of days since the most recently determined High Water Mark or the beginning of the current calendar year, whichever is most recent. The Manager may make such adjustments to the Unit Price, the High Water Mark and/or the Hurdle Amount per unit as are determined by the Manager to be necessary to account for the payment of any distributions on units, any unit splits or consolidations or any other event or matter that would, in the opinion of the Manager, impact upon the computation of the performance fee. Any such determination of the Manager shall, absent manifest error, be binding on all unitholders. Investors in Class I units may negotiate a different performance fee than the one described herein or no performance fee at all. Any performance fee for Class I units will be paid directly to the Manager. The Manager reserves the right, in its discretion, to discontinue, decrease or waive the performance fee at any time. For the period ended June 30, 2021, the Fund incurred performance fees of \$3,804,521 plus applicable taxes.

### **(c) Fund-on-Fund Fees and Expenses**

When the Fund invests in an underlying fund, the underlying fund may pay a management and performance fee and other expenses in addition to the fees and expenses payable by the Fund. The fees and expenses of the underlying fund will have an impact on the management expense ratio of the Fund. However, the Fund will not pay a management or performance fee that, to a reasonable person, would duplicate a fee payable by the underlying fund(s) for the same service. In addition, the Fund will not pay any sales charges, redemption fees or short-term trading fees for its purchase or redemption of units of any underlying fund that is managed by the Manager, or that, in respect of the other underlying funds, to a reasonable person, would duplicate a fee payable by an investor in any underlying fund.

**THINK AHEAD.  
STAY AHEAD.**



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## **PICTON MAHONEY ASSET MANAGEMENT CORPORATE INFORMATION**

### **Corporate Address**

#### **Picton Mahoney Asset Management**

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### **Auditor**

#### **PricewaterhouseCoopers LLP**

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### **Fund Administration & Transfer Agent**

#### **Picton Mahoney Funds**

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