

FORTIFIED EQUITY FUND



**THINK AHEAD.
STAY AHEAD.**

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MANAGEMENT'S RESPONSIBILITY STATEMENT

The accompanying financial statements have been prepared by Picton Mahoney Asset Management, the Manager of the Picton Mahoney Fortified Equity 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 28, 2018

NOTICE TO UNITHOLDERS

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 EQUITY FUND

STATEMENTS OF FINANCIAL POSITION

As at June 30, 2018 (unaudited) and December 31, 2017

	June 30, 2018 \$	December 31, 2017 \$
Assets		
Current assets		
Long positions at fair value*	53,942,800	41,961,398
Cash	4,285,563	657,483
Options purchased	268,228	97,691
Deposits with brokers for securities sold short	6,944,770	4,594,703
Due from Manager	97,755	77,210
Subscriptions receivable	94,795	-
Receivable for investments sold	355,936	231,005
Dividends receivable	69,990	41,211
	66,059,837	47,660,701
Liabilities		
Current liabilities		
Short positions at fair value**	4,867,252	3,285,657
Options written	54,683	25,884
Management fee payable	47,890	8,511
Redemptions payable	3,132	1,877
Accrued liabilities	86,825	63,996
Payable for investments purchased	664,725	212,675
Dividends payable	5,286	5,643
Distributions payable	-	12
	5,729,793	3,604,255
Net Assets Attributable to Holders of Redeemable Units	60,330,044	44,056,446
Net Assets Attributable to Holders of Redeemable Units per Class		
Class A	3,724,519	3,040,636
Class F	8,815,648	3,667,721
Class FT	3,217,517	3,801,587
Class T	366,525	222,301
Class I	44,205,835	33,324,201
Number of Redeemable Units Outstanding		
Class A	324,308	271,866
Class F	745,513	320,231
Class FT	311,067	370,093
Class T	36,579	22,221
Class I	3,626,591	2,838,018
Net Assets Attributable to Holders of Redeemable Units per Unit		
Class A	11.48	11.18
Class F	11.82	11.45
Class FT	10.34	10.27
Class T	10.02	10.00
Class I	12.19	11.74
* Long positions, at cost	50,497,029	39,037,734
** Short positions, at cost	(5,171,568)	(3,356,135)

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)

	2018 \$	2017 \$
Income		
Net gains (losses) on investments and derivatives		
Interest for distribution purposes	23,163	2,987
Dividends	571,622	370,860
Net realized gain (loss) on investments and options	558,324	154,336
Net realized gain (loss) on foreign exchange forward contracts	-	(48,830)
Change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts	900,845	600,412
Interest and borrowing expense	(17,901)	(6,957)
Dividend expense	(78,331)	(20,968)
Net gains (losses) on investments and derivatives	1,957,722	1,051,840
Other income		
Securities lending income	6,557	3,582
Foreign currency gain (loss) on cash and other assets and liabilities	(73,747)	(49,813)
Total Income	1,890,532	1,005,609
Expenses		
Withholding taxes	114,155	29,493
Transaction costs	87,377	49,974
Management fees	80,728	51,891
Custody fees	30,988	31,475
Harmonized sales tax	19,350	15,281
Administrative fees	17,616	17,405
Legal fees	14,234	12,855
Securityholder reporting fees	9,795	3,858
Independent Review Committee Expense	7,147	6,215
Audit fees	3,918	2,832
Total Expense before Manager Absorption	385,308	221,279
Less: Expenses Absorbed by Manager	(20,545)	(70,770)
Total Expense after Manager Absorption	364,763	150,509
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	1,525,769	855,100
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class		
Class A	92,250	74,972
Class F	75,098	90,819
Class FT	118,411	127,151
Class T	8,376	8,759
Class I	1,231,634	553,399
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit		
Class A	0.29	0.39
Class F	0.19	0.41
Class FT	0.35	0.38
Class T	0.23	0.37
Class I	0.39	0.40

PICTON MAHONEY FORTIFIED EQUITY FUND

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

For the six month periods ended June 30 (unaudited)

	2018 \$	2017 \$
Net Assets Attributable to Holders of Redeemable Units at Beginning of Period		
Class A	3,040,636	1,943,473
Class F	3,667,721	2,122,346
Class FT	3,801,587	2,398,350
Class T	222,301	231,416
Class I	33,324,201	9,151,978
	<u>44,056,446</u>	<u>15,847,563</u>
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units		
Class A	92,250	74,972
Class F	75,098	90,819
Class FT	118,411	127,151
Class T	8,376	8,759
Class I	1,231,634	553,399
	<u>1,525,769</u>	<u>855,100</u>
Redeemable Unit Transactions		
Proceeds from redeemable units issued		
Class A	873,898	340,671
Class F	5,401,216	731,331
Class FT	45,572	1,945,812
Class T	145,000	-
Class I	9,650,000	10,830,000
	<u>16,115,686</u>	<u>13,847,814</u>
Redemption of redeemable units		
Class A	(282,265)	(269,191)
Class F	(328,387)	(227,520)
Class FT	(662,144)	(571,340)
Class T	-	-
Class I	-	-
	<u>(1,272,796)</u>	<u>(1,068,051)</u>
Net Increase (Decrease) from Redeemable Unit Transactions	<u>14,842,890</u>	<u>12,779,763</u>
Distributions to Holders of Redeemable Units		
Net investment income		
Class A	-	-
Class F	-	-
Class FT	(85,909)	(85,353)
Class T	(9,152)	(5,786)
Class I	-	-
	<u>(95,061)</u>	<u>(91,139)</u>
Net Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	<u>16,273,598</u>	<u>13,543,724</u>
Net Assets Attributable to Holders of Redeemable Units at End of Period		
Class A	3,724,519	2,089,925
Class F	8,815,648	2,716,976
Class FT	3,217,517	3,814,620
Class T	366,525	234,389
Class I	44,205,835	20,535,377
	<u>60,330,044</u>	<u>29,391,287</u>

STATEMENTS OF CASH FLOWS

For the six month periods ended June 30 (unaudited)

	2018 \$	2017 \$
Cash Flows from Operating Activities		
Increase (decrease) in net assets attributable to holders of redeemable units	1,525,769	855,100
Adjustments for:		
Unrealized foreign exchange (gain) loss on cash	(79,277)	8,429
Net realized (gain) loss on investments and options	(558,324)	(154,336)
Change in unrealized (appreciation) depreciation on investments, options and foreign exchange forward contracts	(900,845)	(600,412)
(Increase) decrease in due from manager	(20,545)	93,995
(Increase) decrease in interest and other receivables	-	(1,116)
(Increase) decrease in dividends receivable	(28,779)	(25,661)
(Increase) decrease in deposits with brokers for securities sold short	(2,350,067)	(1,221,887)
Increase (decrease) in dividends payable	(357)	595
Increase (decrease) in other payables and accrued liabilities	62,208	31,471
Purchase of long positions and repurchases of investments sold short	(47,131,110)	(30,275,649)
Proceeds from sales of long positions and on investments sold short	38,375,853	18,515,493
Net Cash Generated (Used) by Operating Activities	<u>(11,105,474)</u>	<u>(12,773,978)</u>
Cash Flows from Financing Activities		
Distributions to holders of redeemable units, net of reinvested distributions	(95,073)	(91,760)
Proceeds from redeemable units issued	15,901,170	14,062,367
Amount paid on redemption of redeemable units	(1,151,820)	(1,072,423)
Net Cash Generated (Used) by Financing Activities	<u>14,654,277</u>	<u>12,898,184</u>
Unrealized foreign exchange gain (loss) on cash	79,277	(8,429)
Net increase (decrease) in cash	3,548,803	124,206
Cash, beginning of period	657,483	949,973
Cash, End of Period	<u>4,285,563</u>	<u>1,065,750</u>
Cash	4,285,563	1,065,750
Cash overdraft	-	-
Net Cash (Overdraft)	<u>4,285,563</u>	<u>1,065,750</u>
Items classified as operating activities:		
Interest received, net of withholding tax	23,163	1,871
Dividends received, net of withholding tax	428,688	315,706
Interest and borrowing expense paid	(17,901)	(8,886)
Dividends paid	(78,688)	(20,373)

PICTON MAHONEY FORTIFIED EQUITY FUND

SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2018 (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 (\$)	
LONG POSITIONS (89.9%)					Telecommunication Services (0.7%)					
Canadian Equities (15.7%)										
Consumer Discretionary (2.6%)										
	4,800	BRP Inc.	205,610	304,224	8,700	TELUS Corp.		404,428	406,290	
	1,200	Canadian Tire Corporation Limited, Class A	184,259	205,920	Materials (1.4%)					
	7,100	Great Canadian Gaming Corporation	210,411	330,505	4,025	Agnico Eagle Mines Ltd.		235,237	242,587	
	4,200	Quebecor Inc., Class B	87,938	113,064	2,100	CCL Industries Inc., Class B		125,633	135,345	
	4,900	Spin Master Corporation	199,272	285,621	5,700	First Quantum Minerals Ltd.		110,686	110,409	
	5,600	Stars Group Inc.	269,289	267,008	3,400	Neo Performance Materials Inc.		59,147	55,352	
			<u>1,156,779</u>	<u>1,506,342</u>	8,700	Teck Resources Ltd.		313,040	291,363	
								<u>843,743</u>	<u>835,056</u>	
Consumer Staples (0.3%)					Total Canadian Equities - Long					
	7,200	Empire Co., Ltd.	168,130	190,008				8,241,129	9,383,226	
Energy (3.7%)					Global Equities (73.8%)					
	15,200	Canadian Natural Resources Ltd.	637,829	721,240	United States (43.0%)					
	19,400	Encana Corp.	278,175	333,098	6,600	Abbott Laboratories		489,601	529,511	
	10,200	NuVista Energy Limited	70,265	93,024	4,000	Agilent Technologies Inc.		316,996	325,388	
	10,500	Parkland Fuel Corp.	289,070	339,150	3,000	Alcoa Corp.		204,792	185,004	
	14,861	Pembina Pipeline Corp.	637,758	676,621	500	Align Technology Inc.		149,986	225,033	
			<u>1,913,097</u>	<u>2,163,133</u>	600	Alphabet Inc., Class A		866,537	891,231	
Financials (2.7%)						2,150	Altria Group Inc.		187,770	160,614
	10,200	Brookfield Asset Management Inc.	502,993	543,966	600	Amazon.com Inc.		1,061,416	1,341,590	
	5,500	Great-West Lifeco Inc.	184,469	177,760	1,575	American Financial Group Inc.		196,159	222,369	
	2,200	Royal Bank of Canada	203,929	217,778	1,800	Andeavor		264,973	310,608	
	9,050	Sun Life Financial Inc.	467,282	478,112	5,000	Apple Inc.		1,053,768	1,217,509	
	2,900	The Toronto-Dominion Bank	191,588	220,661	18,400	Bank of America Corp.		665,396	682,315	
			<u>1,550,261</u>	<u>1,638,277</u>	800	Boeing Co.		341,363	353,076	
Real Estate (0.2%)						100	Booking Holdings Inc.		272,542	266,652
	1,500	FirstService Corp.	106,290	149,985	1,000	Burlington Stores Inc.		169,112	198,014	
Health Care (0.1%)						2,200	BWX Technologies Inc.		157,412	180,353
	13,000	Bradmer Pharmaceuticals Inc.	65,000	65,000	2,600	Camden Property Trust		295,483	311,679	
Industrials (2.9%)						4,700	CBRE Group Inc.		290,413	295,157
	9,600	Air Canada	170,249	204,000	1,300	CME Group Inc.		270,012	280,316	
	5,300	ATS Automation Tooling Systems Inc.	87,654	103,562	5,100	Comerica Inc.		555,486	609,961	
	39,100	Bombardier Inc.	118,652	203,320	400	CoStar Group Inc.		154,926	217,117	
	2,080	Canadian Pacific Railway Ltd.	476,163	501,114	3,500	DowDuPont Inc.		322,928	303,499	
	83,000	Drone Delivery Canada Corp.	152,964	148,570	3,500	E*TRADE Financial Corporation		192,792	281,584	
	4,700	Finning International Inc.	129,011	152,515	2,400	Electronic Arts Inc.		375,533	445,209	
	4,500	Waste Connections Inc.	365,238	445,635	1,500	Facebook Inc.		349,812	383,425	
			<u>1,499,931</u>	<u>1,758,716</u>	900	FedEx Corp.		293,643	268,816	
Information Technology (1.1%)						1,600	Haemonetics Corp.		137,977	188,750
	3,900	CGI Group Inc.	260,746	324,909	2,600	HealthEquity Inc.		164,602	256,853	
	200	Constellation Software Inc.	148,744	203,910	1,875	HEICO Corp.		162,856	179,879	
	1,600	Kinaxis Inc.	123,980	141,600	3,700	Highwoods Properties Inc.		246,811	246,910	
			<u>533,470</u>	<u>670,419</u>	1,500	Home Depot Inc.		312,371	384,964	
					1,475	Honeywell International Inc.		262,246	279,497	
					1,800	Hyatt Hotels Corp.		183,606	182,676	
					1,100	IDEXX Laboratories Inc.		270,283	315,356	
					800	Intuitive Surgical Inc.		392,961	503,531	
					5,600	JPMorgan Chase & Co.		723,743	767,587	
					2,400	Mastercard Inc.		452,599	620,426	
					1,200	McDonald's Corp.		255,558	247,340	
					3,900	Micron Technology Inc.		314,301	269,029	
					8,700	Microsoft Corporation		912,876	1,128,528	
					6,800	Mondelez International Inc.		362,861	366,746	
					4,600	Morgan Stanley		289,545	286,819	

PICTON MAHONEY FORTIFIED EQUITY FUND

SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2018 (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 (\$)
Korea (1.9%)					Consumer Staples (-0.2%)				
	600	Samsung Electronics Company Limited	876,523	824,783	(6,000)	AGT Food & Ingredients Inc.	(140,696)	(91,920)	
	6,000	Woori Bank	322,876	347,040	Energy (-0.2%)				
			1,199,399	1,171,823	(3,500)	AltaGas Ltd.	(96,502)	(95,025)	
Liberia (0.3%)					Financials (-0.6%)				
	1,300	Royal Caribbean Cruises Ltd.	198,469	177,164	(650)	Bank of Nova Scotia	(49,649)	(48,386)	
Luxembourg (1.6%)					(2,700)	Laurentian Bank of Canada	(142,889)	(121,122)	
	60,000	Aroundtown SA	581,764	648,278	(9,000)	Manulife Financial Corp.	(214,815)	(212,580)	
	46,000	B&M European Value Retail SA	294,256	322,831			(407,353)	(382,088)	
			876,020	971,109	Materials (-0.5%)				
Netherlands (0.6%)					(7,600)	Barrick Gold Corp.	(121,950)	(131,252)	
	10,000	ABN AMRO Group NV	362,311	341,263	(17,200)	Industrial Alliance Insurance & Financial Services Inc	(123,201)	(172,516)	
							(245,151)	(303,768)	
Spain (0.1%)					Index Equivalents (-0.3%)				
	5,000	Euskaltel SA	58,089	59,629	(6,000)	Horizon S&P/TSX 60 Index ETF	(200,358)	(204,960)	
Sweden (0.5%)					Total Canadian Equities - Short				
	3,800	Evolution Gaming Group AB	312,293	311,230			(1,310,501)	(1,309,140)	
Switzerland (2.6%)					Global Equities (-5.9%)				
	700	Lonza Group AG	217,917	244,356	United States (-3.0%)				
	4,500	Novartis AG	457,253	448,784	(2,000)	AutoNation Inc.	(129,962)	(127,808)	
	500	Partners Group Holding AG	459,228	481,890	(170)	IPG Photonics Corp.	(49,403)	(49,338)	
	700	Siegfried Holding AG	314,912	367,694	(755)	John Bean Technologies Corp.	(92,084)	(88,292)	
			1,449,310	1,542,724	(2,440)	Kellogg Co.	(207,095)	(224,263)	
United Kingdom (1.2%)					(3,600)	Liberty Media Group - Liberty Formula One	(137,974)	(175,833)	
	35,000	Arrow Global Group PLC	223,585	147,100	(350)	MarketAxess Holdings Inc.	(98,112)	(91,096)	
	4,400	Coca-Cola European Partners PLC	217,684	235,222	(1,442)	New York Times Co.	(47,386)	(49,129)	
	80,000	Tesco PLC	325,397	356,652	(1,020)	PACCAR Inc.	(88,332)	(83,135)	
			766,666	738,974	(2,700)	Patterson Cos Inc.	(117,764)	(80,517)	
					(700)	Raymond James Financial Inc.	(86,788)	(82,274)	
					(500)	Scotts Miracle-Gro Co.	(54,953)	(54,696)	
					(1,000)	Tractor Supply Co.	(82,561)	(100,618)	
					(1,300)	United Parcel Service Inc.	(186,777)	(181,661)	
					(873)	United Therapeutics Corp.	(138,269)	(129,939)	
					(1,638)	Unum Group	(81,538)	(79,702)	
					(2,324)	US Bancorp.	(150,783)	(152,916)	
					(120)	WW Grainger Inc.	(49,198)	(48,682)	
							(1,798,979)	(1,799,899)	
Options (0.4%)					Belgium (-0.3%)				
		Total Purchased Options - Refer to Appendix A	437,491	268,228	(2,500)	Colruyt SA	(174,197)	(187,641)	
		Transaction Costs	(46,069)	-	Cayman Islands (-0.2%)				
		Total Long Positions	50,497,029	54,211,028	(3,500)	Pagseguro Digital Ltd.	(141,217)	(127,762)	
SHORT POSITIONS (-8.2%)					France (-0.3%)				
Canadian Equities (-2.2%)					(1,500)	JCDecaux SA	(69,861)	(66,026)	
Consumer Discretionary (-0.4%)					(1,100)	Societe BIC SA	(153,450)	(134,140)	
	(2,900)	Gildan Activewear Inc.	(110,272)	(107,387)			(223,311)	(200,166)	
	(1,300)	goeasy Ltd.	(36,763)	(52,338)					
	(2,200)	Sleep Country Canada Holdings Inc.	(73,406)	(71,654)					
			(220,441)	(231,379)					

PICTON MAHONEY FORTIFIED EQUITY FUND

SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2018 (unaudited)

CCY*	No. of shares/units/ Face value	Security Description	Average cost (\$)	Fair value (\$)
South Africa (-0.2%)				
	(4,500)	Mr Price Group Ltd.	(135,081)	(97,718)
Spain (-0.2%)				
	(12,500)	Telefonica SA	(143,293)	(139,742)
Sweden (-0.5%)				
	(7,000)	Hennes & Mauritz AB	(206,632)	(137,411)
	(10,100)	Svenska Handelsbanken AB	(177,502)	(147,860)
			(384,134)	(285,271)
Switzerland (-0.6%)				
	(3,337)	Aryzta AG	(136,075)	(65,848)
	(800)	Dufry AG	(134,226)	(133,962)
	(900)	Panalpina Welttransport Holding AG	(175,986)	(160,961)
			(446,287)	(360,771)
United Kingdom (-0.6%)				
	(10,000)	Merlin Entertainments plc	(66,474)	(67,159)
	(10,000)	Pearson PLC	(122,089)	(153,699)
	(8,000)	Rolls-Royce Holdings PLC	(120,105)	(137,298)
	(568,000)	Rolls-Royce Holdings PLC, Class C	(988)	(986)
			(309,656)	(359,142)
Total Global Equities - Short			(3,756,155)	(3,558,112)
Options (-0.1%)				
Total Written Options - Refer to Appendix A			(101,801)	(54,683)
Transaction Costs			(3,111)	-
Total Short Positions			(5,171,568)	(4,921,935)
TOTAL INVESTMENT PORTFOLIO (81.7%)			45,325,461	49,289,093
Other Assets Net of Liabilities (18.3%)				11,040,951
TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (100.0%)				60,330,044

*CCY denotes local currency of security

APPENDIX A

OPTIONS (0.5%)

Issuer	Option Type	Number of Options	Strike	Expiry	Average Cost \$	Fair Value \$
iShares S&P-TSX 60 ETF	Put Option	1,860	\$23	July, 2018	26,420	6,510
iShares MSCI EAFE ETF	Put Option	1,300	\$65	August, 2018	130,898	101,750
iShares MSCI EAFE ETF	Put Option	1,000	\$65	July, 2018	89,450	35,517
iShares S&P-TSX 60 ETF	Put Option	800	\$23	August, 2018	12,400	9,600
S&P 500 Index	Put Option	12	\$2,575	August, 2018	58,721	28,966
S&P 500 Index	Put Option	12	\$2,575	July, 2018	39,938	10,641
S&P 500 Index	Put Option	12	\$2,650	August, 2018	32,834	46,646
S&P 500 Index	Put Option	12	\$2,650	July, 2018	17,206	22,968
S&P 500 Index	Put Option	8	\$2,550	July, 2018	29,624	5,630
Total Purchased Options					437,491	268,228
S&P 500 Index	Written Put Option	(6)	\$2,400	August, 2018	(13,180)	(5,564)
S&P 500 Index	Written Put Option	(6)	\$2,500	August, 2018	(7,340)	(9,432)
S&P 500 Index	Written Put Option	(6)	\$2,500	July, 2018	(3,394)	(2,881)
Unum Group	Written Call Option	(8)	\$40	July, 2018	(210)	(105)
S&P 500 Index	Written Put Option	(10)	\$2,400	July, 2018	(13,944)	(2,708)
iShares MSCI EAFE ETF	Written Put Option	(125)	\$64	July, 2018	(3,782)	(2,960)
iShares MSCI EAFE ETF	Written Put Option	(150)	\$63	August, 2018	(3,947)	(6,709)
iShares S&P-TSX 60 ETF	Written Put Option	(280)	\$21	July, 2018	(1,680)	(682)
iShares S&P-TSX 60 ETF	Written Put Option	(400)	\$22	August, 2018	(2,000)	(2,000)
iShares MSCI EAFE ETF	Written Put Option	(400)	\$62	August, 2018	(27,362)	(13,944)
iShares MSCI EAFE ETF	Written Put Option	(500)	\$62	July, 2018	(22,362)	(6,248)
iShares S&P-TSX 60 ETF	Written Put Option	(650)	\$21	July, 2018	(2,600)	(1,450)
Total Written Options					(101,801)	(54,683)

PICTON MAHONEY FORTIFIED EQUITY FUND

FUND SPECIFIC NOTES

As at June 30, 2018 (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, 2018 and December 31, 2017.

ASSETS (LIABILITIES) AT FAIR VALUE AS AT JUNE 30, 2018				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities - Long	53,877,800	-	65,000	53,942,800
Options - Long	268,228	-	-	268,228
Equities - Short	(4,867,252)	-	-	(4,867,252)
Options - Short	(54,683)	-	-	(54,683)
Total	49,224,093	-	65,000	49,289,093

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2017				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities - Long	41,946,175	15,223	-	41,961,398
Options - Long	97,691	-	-	97,691
Equities - Short	(3,285,657)	-	-	(3,285,657)
Options - Short	(25,884)	-	-	(25,884)
Total	38,732,325	15,223	-	38,747,548

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, 2018 and December 31, 2017.

June 30, 2018	Equities - Long \$	Equities - Short \$	Debt Instruments \$	Total \$
Balance at Beginning of Period	-	-	-	-
Investment purchases during the period	65,000	-	-	65,000
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	-	-	-	-
Balance at End of Period	65,000	-	-	65,000
Total change in unrealized appreciation (depreciation) for assets held as at June 30, 2018				-

December 31, 2017	Equities - Long \$	Equities - Short \$	Debt Instruments \$	Total \$
Balance at Beginning of Period	257,250	-	-	257,250
Investment purchases during the period	-	-	-	-
Proceeds from sales during the period	-	-	-	-
Transfers in during the period	-	-	-	-
Transfers out during the period	(290,745)	-	-	(290,745)
Net realized gain (loss) on sale of investments	-	-	-	-
Change in unrealized appreciation (depreciation) in value of investments	33,495	-	-	33,495
Balance at End of Period	-	-	-	-
Total change in unrealized appreciation (depreciation) for assets held as at December 31, 2017				33,495

PICTON MAHONEY FORTIFIED EQUITY FUND

FUND SPECIFIC NOTES (CONTINUED)

During the period ended June 30, 2018, certain equities held long were classified as Level 3. The Fund's long Level 3 securities consist of subscription receipts which were measured at the transaction price as determined at the time of purchase. During the year ended December 31, 2017, certain securities were transferred out of Level 3 classification. 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 \$3,250 as at June 30, 2018 (December 31, 2017 - \$nil).

June 30, 2018							
Security Name	Fair Value	Valuation Technique	Unobservable Inputs	Reasonable Shift (+)	Reasonable Shift (-)	Change in Valuation (+)	Change in Valuation (-)
Bradmer Pharmaceuticals Inc.	\$65,000	Recent financing	Purchase price	5%	5%	\$3,250	\$(3,250)

3. 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, 2018, there was \$2,968,684 (Collateral - \$3,028,076) of securities on loan (December 31, 2017 - \$4,914,243 (Collateral - \$5,012,544) 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, 2018 (\$)	June 30, 2017 (\$)
Gross securities lending income	10,088	5,511
Securities lending charges	(3,531)	(1,929)
Net securities lending income	6,557	3,582
Withholding taxes on securities lending income	(187)	(103)
Net securities lending income received by the Fund	6,370	3,479
Security lending charges percentage of gross securities lending income	35%	35%

4. OTHER PRICE RISK

Using Beta as a measure of the relationship of the Fund's performance versus its index, if the blended index consisting of 25% S&P/TSX Composite Total Return Index; 50% MSCI World Index; and 25% FTSE TMX Canada 30-Day T-Bill Index were to increase or decrease by 10%, net assets would have increased or decreased by approximately \$4,150,162 (December 31, 2017 - \$3,864,618). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

PICTON MAHONEY FORTIFIED EQUITY FUND

FUND SPECIFIC NOTES (CONTINUED)

5. CURRENCY RISK

Foreign currencies to which the Fund had exposure as at June 30, 2018 and December 31, 2017 were as follows:

FINANCIAL INSTRUMENTS					
June 30, 2018 Currency	Monetary \$	Non-Monetary \$	Forward Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	1,557,503	27,055,617	-	28,613,120	47.4%
European Euro	531,917	6,027,821	-	6,559,738	10.9%
Japanese Yen	(10,973)	3,782,025	-	3,771,052	6.3%
British Pound	301,563	790,295	-	1,091,858	1.8%
Australian Dollar	6,695	-	-	6,695	0.0%
Hong Kong Dollar	(108,510)	1,627,192	-	1,518,682	2.5%
Chinese Yuan	3,301	-	-	3,301	0.0%
Swiss Franc	470,883	1,181,953	-	1,652,836	2.7%
Swedish Krona	351,633	25,960	-	377,593	0.6%
Mexican Peso	(3,177)	-	-	(3,177)	0.0%
South African Rand	106,310	(97,718)	-	8,592	0.0%
Net Exposure	3,207,145	40,393,145	-	43,600,290	72.2%

FINANCIAL INSTRUMENTS					
December 31, 2017 Currency	Monetary \$	Non-Monetary \$	Forwards Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	780,329	15,914,238	-	16,694,567	37.9%
European Euro	227,928	5,040,908	-	5,268,836	12.0%
Japanese Yen	58,283	2,029,804	-	2,088,087	4.7%
British Pound	252,887	1,293,811	-	1,546,698	3.5%
Australian Dollar	6,751	729,013	-	735,764	1.7%
Hong Kong Dollar	-	841,543	-	841,543	1.9%
Swiss Franc	234,871	786,013	-	1,020,884	2.3%
Norwegian Krone	-	337,265	-	337,265	0.8%
Swedish Krona	267,251	71,775	-	339,026	0.8%
Mexican Peso	(2,908)	-	-	(2,908)	0.0%
South African Rand	(13,543)	122,243	-	108,700	0.2%
Net Exposure	1,811,849	27,166,613	-	28,978,462	65.8%

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 \$2,180,015 (December 31, 2017 - \$1,448,923). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

The Fund may enter into forward currency contracts to manage currency risk.

6. INTEREST RATE RISK

As of June 30, 2018 and December 31, 2017, the Fund did not have significant exposure to interest rate risk.

7. CREDIT RISK

As of June 30, 2018 and December 31, 2017, the Fund had no exposure to debt instruments. All counterparties to derivative contracts had a rating of A-1 or higher as at June 30, 2018 and December 31, 2017.

PICTON MAHONEY FORTIFIED EQUITY FUND

FUND SPECIFIC NOTES (CONTINUED)

8. 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, 2018 and December 31, 2017.

Jurisdiction	% of Net Assets	
	June 30, 2018	December 31, 2017
Equities		
Canada	13.5%	25.7%
United States	40.0%	31.6%
International	27.9%	30.5%
Derivatives	0.3%	0.1%

9. 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 statement of financial position and are due on demand.

June 30, 2018 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	4,867,252	-	-	4,867,252
Redemptions payable	3,132	-	-	3,132
Accrued liabilities and other payables	-	804,726	-	804,726
Derivative liabilities	54,683	-	-	54,683

December 31, 2017 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	3,285,657	-	-	3,285,657
Distributions payable	12	-	-	12
Redemptions payable	1,877	-	-	1,877
Accrued liabilities and other payables	-	290,825	-	290,825
Derivative liabilities	25,884	-	-	25,884

10. FUND UNIT TRANSACTIONS

For the six month periods ended June 30 (unaudited)

	2018					2017				
	Class A	Class F	Class FT	Class T	Class I	Class A	Class F	Class FT	Class T	Class I
Units issued and outstanding, beginning of period	271,866	320,231	370,093	22,221	2,838,018	187,478	202,148	242,367	23,752	859,775
Units issued	77,050	453,153	4,388	14,358	788,573	31,836	66,831	192,688	-	978,630
Units reinvested	-	-	-	-	-	-	-	-	-	-
Units redeemed	(24,608)	(27,871)	(63,414)	-	-	(25,072)	(21,014)	(56,476)	-	-
Units issued and outstanding, end of period	324,308	745,513	311,067	36,579	3,626,591	194,242	247,965	378,579	23,752	1,838,405
Weighted average number of units held during the period	316,147	402,403	340,530	35,790	3,172,216	192,802	220,424	332,484	23,752	1,369,745

PICTON MAHONEY FORTIFIED EQUITY FUND

FUND SPECIFIC NOTES (CONTINUED)

11. COMMISSIONS

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

	2018	2017
Brokerage commissions	50	50
Soft Dollar commissions	13	7

12. TAX LOSS CARRY FORWARDS

As at December 31 (in \$000)

	2017
Net capital losses carry forward	41
Non-capital losses carry forward	-

13. STRUCTURED ENTITIES

The table below illustrates the Fund's investment in the underlying funds as at June 30, 2018 and December 31, 2017.

Underlying Funds	Fair Value of Fund's Investment (in \$000s)	Underlying Fund's Net Assets (in \$000s)	% of Net Assets of the Underlying Fund
As at June 30, 2018			
None	-	-	-
As at December 31, 2017			
iShares MSCI South Korea Capped ETF	638	5,237,656	0.0%

PICTON MAHONEY FORTIFIED EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2018 (unaudited)

1. GENERAL INFORMATION

Picton Mahoney Fortified Equity Fund (the "Fund") is an open-ended mutual trust established under the laws of the Province of Ontario pursuant to a trust agreement dated October 21, 2015 (the "Trust Declaration"). The Fund commenced operations on October 29, 2015. 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 28, 2018.

On October 29, 2015, 15,001 Class A units of the Fund were issued to the Manager of the Fund, for cash consideration of CAD \$10.00 per unit.

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 FT, Class T and Class I 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 FT 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 FT units are also designed to provide cash flow to investors by making monthly distributions of cash. Class T units are available to all investors and are designed to provide cash flow to investors by making monthly distributions of cash. 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.

As at June 30, 2018, the Fund currently has 5 Class of Units: Class A, Class F, Class FT, Class T, and Class I.

The investment objective of the Fund is to achieve long-term capital appreciation by investing primarily in global equity securities while mitigating capital loss by engaging in hedging strategies for downside risk protection.

2. BASIS OF PRESENTATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) 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 design-

nate 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.

(b) 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.

(c) 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

PICTON MAHONEY FORTIFIED EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2018 (unaudited)

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.

(d) Impairment of financial assets

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

(e) 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.

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 FT, Class T and Class I 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.

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.

(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.

PICTON MAHONEY FORTIFIED EQUITY FUND

NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2018 (unaudited)

(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 dealer, 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) Future Accounting Changes

IFRS 9, Financial Instruments

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018.

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognized at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

On adoption of IFRS 9, the Fund's investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortized cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

(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 at June 30, 2018 and December 31, 2017, 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.

4. 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.

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

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, *Financial Instruments – Recognition and Measurement (IAS 39)*. The most significant judgments made include the determination that certain financial instruments are held-for-trading and that the fair value option can be applied to those which are not.

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.

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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.

5. 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, 2018 and December 31, 2017, 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.

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.

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

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.

6. 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.

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7. 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.

8. 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 and Class I units will be automatically reinvested in additional units. For Class FT and Class T units, unitholders will receive a target monthly distribution at an initial rate of 5% per annum. The target rate of monthly distribution will be reset at the beginning of each calendar year to provide a target yield based on the net asset value per Class FT unit or Class T unit as at December 31 of the prior year. Throughout the year, such monthly distributions to unitholders will be composed of net income, net capital gains and/or a return of capital. All distributions on Class FT and Class T units will be paid in cash.

9. 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 12 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.

10. 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.

11. 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

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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 2.00%, on Class F units is 1.00%, on Class FT units is 1.00%, and on Class T units is 2.00%. 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.

(b) Performance Fees

The Manager receives a performance fee payable in respect of each class of units of the Fund. The performance fee is equal to the daily net asset value of the class of units of the Fund during the calendar quarter multiplied by 20% of the amount by which the total return of the class of units exceeds the total percentage increase or decrease in the blended benchmark consisting of 25% S&P/TSX Composite Total Return Index; 50% MSCI World Index (net total return, in Canadian dollars); and 25% FTSE TMX Canada 30 Day T-Bill Index (the "Performance Fee Index") since the end of the period for which the last performance fee was paid. If at any time the total return of the class of units of the Fund is less than its Performance Fee Index, then no performance fee will be payable until the total return of the class of units of the Fund relative to its Performance Fee Index has exceeded the amount of the deficiency calculated on a percentage basis. 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.

**THINK AHEAD.
STAY AHEAD.**



PICTON MAHONEY ASSET MANAGEMENT CORPORATE INFORMATION

Corporate Address

Picton Mahoney Asset Management

33 Yonge Street, Suite. 830
Toronto, Ontario
Canada M5E 1G4

Telephone: 416.955.4108

Toll free: 1.866.369.4108

Fax: 416.955.4100

Email: service@pictonmahoney.com

www.pictonmahoney.com

Fund Administration & Transfer Agent

Picton Mahoney Funds

C/O RBC Investor Services Trust,
Shareholder Services
155 Wellington Street West, 3rd Floor
Toronto, ON
Canada M5V 3L3

Auditor

PricewaterhouseCoopers LLP

18 York Street, Suite 2600
Toronto, Ontario
Canada M5J 0B2

Legal Counsel

McMillan LLP

Brookfield Place, Suite 4400
181 Bay Street
Toronto, Ontario
Canada M5J 2T3