

# FORTIFIED INCOME 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 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

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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 FUND

## STATEMENTS OF FINANCIAL POSITION

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

	June 30, 2018 \$	December 31, 2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Long positions at fair value*	309,355,003	185,352,786
Cash	37,403,964	12,105,102
Options purchased	841,153	201,936
Unrealized gain on foreign exchange forward contracts at fair value	138,884	1,142,490
Deposits with brokers for securities sold short	55,898,724	18,380,644
Subscriptions receivable	2,723,697	426,857
Receivable for investments sold	2,798,127	-
Dividends receivable	1,186	7,254
Interest and other receivable	4,095,134	2,144,854
	<u>413,255,872</u>	<u>219,761,923</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short positions at fair value**	40,633,771	13,771,052
Options written	112,887	60,294
Unrealized loss on foreign exchange forward contracts at fair value	5,305,111	399,809
Management fee payable	947,369	126,181
Performance fee payable	-	40,448
Redemptions payable	1,674,348	173,805
Accrued liabilities	173,308	73,142
Payable for investments purchased	9,139,230	-
Interest payable	504,627	161,544
Distributions payable	4,110	81
	<u>58,494,761</u>	<u>14,806,356</u>
<b>Net Assets Attributable to Holders of Redeemable Units</b>	<u>354,761,111</u>	<u>204,955,567</u>
<b>Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	39,323,551	25,640,513
Class F	264,185,713	145,868,309
Class FT	18,246,756	10,492,359
Class T	1,843,982	1,232,182
Class I	31,161,109	21,722,204
<b>Number of Redeemable Units Outstanding</b>		
Class A	3,625,575	2,311,429
Class F	23,844,864	12,909,550
Class FT	1,823,396	1,009,003
Class T	189,596	121,518
Class I	2,659,857	1,838,343
<b>Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	10.85	11.09
Class F	11.08	11.30
Class FT	10.01	10.40
Class T	9.73	10.14
Class I	11.72	11.82
* Long positions, at cost	<u>306,761,064</u>	<u>184,707,613</u>
** Short positions, at cost	<u>(40,260,992)</u>	<u>(14,130,439)</u>

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 \$
<b>Income</b>		
Net gains (losses) on investments and derivatives		
Interest for distribution purposes	7,646,628	1,371,543
Dividends	7,082	9,931
Net realized gain (loss) on investments and options	4,635,838	1,331,856
Net realized gain (loss) on foreign exchange forward contracts	(5,921,602)	(722,210)
Change in unrealized appreciation (depreciation) on investments, options and foreign exchange forward contracts	(4,219,406)	1,524,797
Interest and borrowing expense	(746,600)	(41,578)
Dividend expense	(7,031)	-
Net gains (losses) on investments and derivatives	<u>1,394,909</u>	<u>3,474,339</u>
Other income		
Securities lending income	9,022	175
Foreign currency gain (loss) on cash and other assets and liabilities	221,945	(449,533)
Total Income	<u>1,625,876</u>	<u>3,024,981</u>
<b>Expenses</b>		
Management fees	1,498,997	257,338
Performance fees	839,345	151,266
Transaction costs	299,478	72,963
Harmonized sales tax	271,109	49,744
Securityholder reporting fees	90,958	9,001
Legal fees	30,175	12,855
Administrative fees	26,014	19,164
Audit fees	24,598	8,010
Custody fees	13,420	10,399
Independent Review Committee Expense	7,147	6,215
Withholding taxes	2,113	3
Total Expense before Manager Absorption	<u>3,103,354</u>	<u>596,958</u>
Less: Expenses Absorbed by Manager	-	(189,935)
Total Expense after Manager Absorption	<u>3,103,354</u>	<u>407,023</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units</b>	<u>(1,477,478)</u>	<u>2,617,958</u>
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class</b>		
Class A	(269,503)	253,630
Class F	(1,268,941)	1,527,539
Class FT	(66,360)	215,759
Class T	(11,579)	27,346
Class I	138,905	593,684
<b>Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit</b>		
Class A	(0.09)	0.42
Class F	(0.07)	0.52
Class FT	(0.05)	0.49
Class T	(0.07)	0.45
Class I	0.06	0.65

# PICTON MAHONEY FORTIFIED INCOME FUND

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

For the six month periods ended June 30 (unaudited)

	2018 \$	2017 \$		2018 \$	2017 \$
<b>Net Assets Attributable to Holders of Redeemable Units at Beginning of Period</b>			<b>Net Increase (Decrease) from Redeemable Unit Transactions</b>	<b>157,217,396</b>	59,514,940
Class A	25,640,513	2,971,249	<b>Distributions to Holders of Redeemable Units</b>		
Class F	145,868,309	15,691,846	Net investment income		
Class FT	10,492,359	2,090,871	Class A	(658,149)	(134,864)
Class T	1,232,182	335,569	Class F	(4,241,893)	(634,601)
Class I	21,722,204	6,297,163	Class FT	(515,056)	(169,464)
	<u>204,955,567</u>	<u>27,386,698</u>	Class T	(59,957)	(23,846)
			Class I	(459,319)	(189,325)
				<u>(5,934,374)</u>	<u>(1,152,100)</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>	<b>149,805,544</b>	60,980,798
Class A	(269,503)	253,630	<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>		
Class F	(1,268,941)	1,527,539	Class A	39,323,551	11,943,803
Class FT	(66,360)	215,759	Class F	264,185,713	53,944,072
Class T	(11,579)	27,346	Class FT	18,246,756	6,478,192
Class I	138,905	593,684	Class T	1,843,982	960,582
	<u>(1,477,478)</u>	<u>2,617,958</u>	Class I	31,161,109	15,040,847
				<u>354,761,111</u>	<u>88,367,496</u>
<b>Redeemable Unit Transactions</b>			<b>Net Assets Attributable to Holders of Redeemable Units at End of Period</b>	<b>354,761,111</b>	88,367,496
Proceeds from redeemable units issued					
Class A	17,226,488	9,256,664			
Class F	137,439,760	38,976,251			
Class FT	9,071,278	4,544,119			
Class T	837,833	697,660			
Class I	9,300,000	8,150,000			
	<u>173,875,359</u>	<u>61,624,694</u>			
Reinvestments of distributions to holders of redeemable units					
Class A	534,362	109,584			
Class F	2,496,934	472,343			
Class FT	-	-			
Class T	-	-			
Class I	459,319	189,325			
	<u>3,490,615</u>	<u>771,252</u>			
Redemption of redeemable units					
Class A	(3,150,160)	(512,460)			
Class F	(16,108,456)	(2,089,306)			
Class FT	(735,465)	(203,093)			
Class T	(154,497)	(76,147)			
Class I	-	-			
	<u>(20,148,578)</u>	<u>(2,881,006)</u>			

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

# PICTON MAHONEY FORTIFIED INCOME FUND

## STATEMENTS OF CASH FLOWS

For the six month periods ended June 30 (unaudited)

	2018 \$	2017 \$		2018 \$	2017 \$
<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	(1,477,478)	2,617,958	Distributions to holders of redeemable units, net of reinvested distributions	(2,439,730)	(376,273)
Adjustments for:			Proceeds from redeemable units issued	170,547,155	60,626,854
Unrealized foreign exchange (gain) loss on cash	(1,824,529)	280,581	Amount paid on redemption of redeemable units	(17,616,671)	(2,848,664)
Net realized (gain) loss on investments and options	(4,635,838)	(1,331,856)	<b>Net Cash Generated (Used) by Financing Activities</b>	<u>150,490,754</u>	<u>57,401,917</u>
Change in unrealized (appreciation) depreciation on investments, options and foreign exchange forward contracts	4,219,406	(1,524,797)	Unrealized foreign exchange gain (loss) on cash	1,824,529	(280,581)
(Increase) decrease in due from manager	-	94,418	Net increase (decrease) in cash	23,474,333	5,321,778
(Increase) decrease in interest and other receivables	(1,950,280)	(494,456)	Cash, beginning of period	<u>12,105,102</u>	<u>5,160,234</u>
(Increase) decrease in dividends receivable	6,068	(6,059)	<b>Cash, End of Period</b>	<u>37,403,964</u>	<u>10,201,431</u>
(Increase) decrease in deposits with brokers for securities sold short	(37,518,080)	(6,714,281)	Cash	37,403,964	10,201,431
Increase (decrease) in interest payable	343,083	73,000	Cash overdraft	-	-
Increase (decrease) in other payables and accrued liabilities	880,906	171,764	<b>Net Cash (Overdraft)</b>	<u>37,403,964</u>	<u>10,201,431</u>
Purchase of long positions and repurchases of investments sold short	(469,429,562)	(118,630,711)	<b>Items classified as operating activities:</b>		
Proceeds from sales of long positions and on investments sold short	<u>384,369,883</u>	<u>73,384,300</u>	Interest received, net of withholding tax	5,696,348	877,087
<b>Net Cash Generated (Used) by Operating Activities</b>	<u>(127,016,421)</u>	<u>(52,080,139)</u>	Dividends received, net of withholding tax	11,037	3,869
			Interest and borrowing expense paid	(403,517)	31,327
			Dividends paid	<u>(7,031)</u>	<u>-</u>



# PICTON MAHONEY FORTIFIED INCOME FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2018 (unaudited)

No. of shares/ units/ CCY*		Security Description	Average cost (\$)	Fair value (\$)	No. of shares/ units/ CCY*		Security Description	Average cost (\$)	Fair value (\$)
Face value					Face value				
<b>LONG POSITIONS (87.4%)</b>									
<b>Canadian Equities (0.1%)</b>									
<b>Energy (0.1%)</b>									
	83,000	Source Energy Services Ltd.	624,021	412,510	CAD	3,300,000	Iron Mountain Canada Operations ULC 5.375%, 2023-09-15	3,417,438	3,345,375
<b>Financials (0.0%)</b>									
	6,800	First National Financial, Preferred Series 1	97,413	91,630	CAD	4,300,000	NuVista Energy Ltd. 6.500%, 2023-03-02	4,304,250	4,338,521
<b>Total Canadian Equities - Long</b>									
			<b>721,434</b>	<b>504,140</b>	CAD	7,000,000	Parkland Fuel Corp. 5.625%, 2025-05-09	7,054,291	7,042,290
<b>Global Equities (0.4%)</b>									
<b>United States Equities (0.4%)</b>									
	46,672	Brookfield DTLA Fund Office Trust Investor Inc.	1,587,391	1,428,033	USD	925,000	Parkland Fuel Corp. 6.000%, 2026-04-01	1,212,660	1,201,575
<b>Total Global Equities - Long</b>									
			<b>1,587,391</b>	<b>1,428,033</b>	CAD	6,500,000	Quebecor Media Inc. 6.625%, 2023-01-15	7,100,765	7,016,096
<b>Canadian Debt (35.2%)</b>									
<b>Corporate Bonds (35.2%)</b>									
USD	1,700,000	1011778 BC ULC / New Red Finance Inc. 5.000%, 2025-10-15	2,094,063	2,127,124	CAD	3,350,000	Russel Metals Inc. 6.000%, 2026-03-16	3,357,670	3,362,563
CAD	3,200,000	Air Canada Inc. 4.750%, 2023-10-06	3,287,750	3,324,000	CAD	5,950,000	Source Energy Services Canada LP 10.500%, 2021-12-15	6,496,684	6,470,625
USD	2,400,000	Bank of Nova Scotia 2.375%, 2085-08-31	2,704,582	2,730,860	CAD	6,000,000	Superior Plus LP 5.125%, 2025-08-27	5,596,556	5,737,500
USD	5,900,000	Baytex Energy Corp. 5.125%, 2021-06-01	7,211,214	7,547,685	USD	3,450,000	Telesat Canada / Telesat LLC 8.875%, 2024-11-15	4,909,300	4,867,305
CAD	3,100,000	Baytex Energy Corp. 6.625%, 2022-07-19	3,015,538	3,080,625	USD	3,750,000	Trinidad Drilling Ltd. 6.625%, 2025-02-15	4,577,068	4,772,593
USD	1,750,000	Baytex Energy Corp. 5.625%, 2024-06-01	2,081,697	2,169,659	USD	3,150,000	Valeant Pharmaceuticals International Inc. 7.000%, 2024-03-15	4,292,208	4,359,945
USD	2,100,000	Cascades Inc. 5.750%, 2023-07-15	2,763,030	2,734,807	USD	2,600,000	Valeant Pharmaceuticals International Inc. 9.000%, 2025-12-15	3,405,776	3,556,788
CAD	4,030,000	CES Energy Solutions Corp. 6.375%, 2024-10-21	4,062,056	4,048,471	USD	2,025,000	Valeant Pharmaceuticals International Inc. 8.500%, 2027-01-31	2,636,465	2,709,137
CAD	275,000	Clarity Trust Series D Medium Term Note 6.889%, 2019-04-15	275,000	275,000	<b>Total Canadian Debt - Long</b>				
CAD	3,933,000	Crew Energy Inc. 6.500%, 2024-03-14	3,881,551	3,667,522				<b>123,742,645</b>	<b>124,747,742</b>
CAD	6,443,000	Element Financial Corp. 5.125%, 2019-06-30	6,229,586	6,378,570	<b>Global Debt (51.5%)</b>				
CAD	6,350,000	Element Fleet Management Corp. 4.250%, 2020-06-30	5,868,041	6,016,625	<b>United States Corporate and Government Bonds (33.8%)</b>				
USD	4,800,000	First Quantum Minerals Ltd. 6.875%, 2026-03-01	6,032,188	6,061,563	USD	900,000	Allison Transmission Inc. 5.000%, 2024-10-01	1,152,520	1,167,620
CAD	275,000	Fusion Trust Series D Medium Term Note 6.889%, 2019-04-15	275,000	275,000	USD	1,550,000	Alta Mesa Holdings LP / Alta Mesa Finance Services Corp. 7.875%, 2024-12-15	2,067,057	2,168,919
USD	1,500,000	GFL Environmental Inc. 5.625%, 2022-05-01	1,962,512	1,909,037	USD	900,000	Berry Plastics Corp. 5.125%, 2023-07-15	1,162,779	1,177,979
USD	3,550,000	GFL Environmental Inc. 5.375%, 2023-03-01	4,470,915	4,331,262	USD	1,500,000	Cablevision Systems Corp. 5.875%, 2022-09-15	1,912,678	1,963,299
CAD	3,400,000	Great Canadian Gaming Corp. 6.625%, 2022-07-25	3,493,500	3,493,500	USD	5,000,000	CCO Holdings LLC / CCO Holdings Capital Corp. 5.875%, 2024-04-01	6,481,155	6,610,103
USD	4,300,000	IAMGOLD Corp. 7.000%, 2025-04-15	5,673,291	5,796,119	USD	1,450,000	CCO Holdings LLC / CCO Holdings Capital Corp. 5.500%, 2026-05-01	1,824,544	1,854,367
					USD	3,042,000	Coeur Mining Inc. 5.875%, 2024-06-01	3,887,923	3,876,529
					USD	4,800,000	CSC Holdings LLC 10.875%, 2025-10-15	7,241,161	7,294,712
					USD	316,000	Endeavor Energy Resources LP / EER Finance Inc. 5.500%, 2026-01-30	403,014	404,249

# PICTON MAHONEY FORTIFIED INCOME 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 (\$)
USD	2,850,000	Endeavor Energy Resources LP / EER Finance Inc. 5.750%, 2028-01-30	3,656,804	3,669,347	<b>International Corporate Bonds (17.7%)</b>				
USD	5,150,000	Freeport Minerals Corp. 9.500%, 2031-06-01	8,476,062	8,400,421	USD	3,410,000	Alcoa Nederland Holding BV 7.000%, 2026-09-30	4,776,724	4,799,658
USD	2,700,000	Great Lakes Dredge & Dock Corp. 8.000%, 2022-05-15	3,557,193	3,640,489	USD	1,600,000	Bank of Scotland PLC 2.750%, 2049-11-29	1,781,868	1,729,019
USD	1,751,000	Gulfport Energy Corp. 6.375%, 2025-05-15	2,261,923	2,248,637	USD	2,350,000	Ferroglobe PLC / Globe Specialty Metals Inc. 9.375%, 2022-03-01	3,232,715	3,207,215
USD	1,436,000	Gulfport Energy Corp. 6.375%, 2026-01-15	1,837,192	1,818,140	USD	5,460,000	Lloyds Bank PLC 2.301%, 2049-08-29	5,995,561	5,897,511
USD	6,000,000	HCA Inc. 7.500%, 2023-12-15	8,627,317	8,504,341	USD	4,700,000	Lloyds Bank PLC 2.495%, 2049-12-31	5,379,075	5,085,175
USD	2,500,000	HCA Inc. 5.500%, 2047-06-15	3,193,173	3,025,520	USD	4,000,000	National Westminster Bank PLC 2.500%, 2049-08-29	4,333,160	4,301,500
USD	2,180,000	Horizon Pharma Inc. 6.625%, 2023-05-01	2,764,801	2,899,928	USD	7,440,000	Royal Bank of Scotland Group PLC 2.813%, 2049-12-31	8,017,111	8,220,994
USD	1,600,000	Horizon Pharma Inc. / Horizon Pharma USA Inc. 8.750%, 2024-11-01	2,220,186	2,258,248	USD	3,000,000	SFR Group SA 6.250%, 2024-05-15	3,679,252	3,847,672
USD	1,800,000	Iron Mountain Inc. 5.750%, 2024-08-15	2,256,246	2,326,361	USD	3,210,000	Standard Chartered PLC 2.000%, 2049-12-31	3,603,931	3,842,541
USD	3,100,000	Lennar Corp. 4.750%, 2027-11-29	3,872,361	3,843,396	USD	7,460,000	Standard Chartered PLC 2.720%, 2049-12-31	7,725,959	8,930,018
USD	1,700,000	MasTec Inc. 4.875%, 2023-03-15	2,205,306	2,178,458	USD	4,750,000	Standard Chartered PLC 1.650%, 2049-12-31	5,197,680	5,686,004
USD	1,150,000	MGM Resorts International 6.000%, 2023-03-15	1,553,983	1,561,924	USD	1,250,000	Standard Chartered PLC 2.088%, 2049-12-31	1,456,703	1,496,317
USD	2,200,000	MGM Resorts International 5.750%, 2025-06-15	2,882,993	2,898,866	USD	1,800,000	Stars Group Holdings BV / Stars Group US Co-Borrower LLC 7.000%, 2026-07-15	2,395,687	2,367,798
USD	4,000,000	Plastipak Holdings Inc. 6.250%, 2025-10-15	5,002,464	4,867,140	USD	2,700,000	Virgin Media Finance PLC 5.750%, 2025-01-15	3,410,312	3,343,035
USD	1,400,000	RBS Capital Trust II 6.425%, 2049-01-03	2,151,792	2,196,133			<b>Total Global Debt - Long</b>	<b>180,053,244</b>	<b>182,675,088</b>
USD	3,000,000	SBA Communications Corp. 4.875%, 2024-09-01	3,628,790	3,784,688	<b>Options (0.2%)</b>				
USD	1,694,000	Steel Dynamics Inc. 4.125%, 2025-09-15	2,112,529	2,154,491			<b>Total Purchased Options - Refer to Appendix A</b>	<b>660,138</b>	<b>841,153</b>
USD	2,700,000	Steel Dynamics Inc. 5.000%, 2026-12-15	3,514,429	3,568,354			<b>Transaction Costs</b>	<b>(3,788)</b>	<b>-</b>
USD	1,650,000	Targa Resources Partners LP / Targa Resources Partners 5.875%, 2026-04-15	2,126,584	2,189,473			<b>Total Long Positions</b>	<b>306,761,064</b>	<b>310,196,156</b>
USD	2,452,000	Targa Resources Partners LP / Targa Resources Partners 5.375%, 2027-02-01	3,085,733	3,136,767	<b>SHORT POSITIONS (-11.4%)</b>				
USD	5,250,000	United Rentals North America Inc. 5.750%, 2024-11-15	6,875,461	7,044,199	<b>Canadian Debt (-2.0%)</b>				
USD	1,750,000	Vector Group Ltd. 6.125%, 2025-02-01	2,267,389	2,230,087	<b>Government Bonds (-1.1%)</b>				
USD	2,200,000	XPO Logistics Inc. 6.125%, 2023-09-01	2,921,511	2,980,795	CAD	(2,000,000)	Canadian Government Bond 1.000%, 2027-06-01	(1,756,700)	(1,813,397)
USD	3,800,000	Zayo Group LLC / Zayo Capital Inc. 5.750%, 2027-01-15	4,825,444	4,923,704	CAD	(2,000,000)	Canadian Government Bond 2.000%, 2028-06-01	(1,984,800)	(1,970,478)
USD	3,500,000	Zekelman Industries Inc. 9.875%, 2023-06-15	5,057,009	5,052,947				(3,741,500)	(3,783,875)
			<u>119,067,506</u>	<u>119,920,631</u>	<b>Corporate Bonds (-0.9%)</b>				
CAD	(1,200,000)	Gibson Energy Inc. 5.250%, 2024-07-15			CAD	(1,200,000)	Gibson Energy Inc. 5.250%, 2024-07-15	(1,198,500)	(1,200,000)
USD	(800,000)	MDC Partners Inc. 6.500%, 2024-05-01			USD	(800,000)	MDC Partners Inc. 6.500%, 2024-05-01	(977,909)	(918,179)
USD	(1,000,000)	Precision Drilling Corp. 5.250%, 2024-11-15			USD	(1,000,000)	Precision Drilling Corp. 5.250%, 2024-11-15	(1,208,778)	(1,249,671)
								(3,385,187)	(3,367,850)
					<b>Total Canadian Debt - Short</b>				
								<b>(7,126,687)</b>	<b>(7,151,725)</b>

# PICTON MAHONEY FORTIFIED INCOME FUND

## SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2018 (unaudited)

No. of shares/ units/ CCY*	Face value	Security Description	Average cost (\$)	Fair value (\$)	No. of shares/ units/ CCY*	Face value	Security Description	Average cost (\$)	Fair value (\$)
<b>Global Debt (-9.4%)</b>					<b>Options (0.0%)</b>				
<b>United States Corporate and Government Bonds (-8.5%)</b>					<b>Total Written Options - Refer to Appendix A</b>				
USD	(1,500,000)	AMC Networks Inc. 4.750%, 2025-08-01	(1,888,759)	(1,901,658)	<b>Transaction Costs</b>				
USD	(1,300,000)	American Axle & Manufacturing Inc. 6.250%, 2026-03-15	(1,656,770)	(1,671,600)	<b>Total Short Positions</b>				
USD	(1,200,000)	American Woodmark Corp. 4.875%, 2026-03-15	(1,487,558)	(1,499,605)	<b>FOREIGN EXCHANGE FORWARD CURRENCY CONTRACTS (-1.5%)</b>				
USD	(1,000,000)	Beacon Escrow Corp. 4.875%, 2025-11-01	(1,190,955)	(1,215,996)	<b>Total Currency Hedge - Refer to Appendix B</b>				
USD	(500,000)	CD&R Waterworks Merger Sub LLC 6.125%, 2025-08-15	(641,553)	(626,480)	<b>TOTAL INVESTMENT PORTFOLIO (74.5%)</b>				
USD	(1,500,000)	Comcast Corp. 4.250%, 2033-01-15	(1,911,698)	(1,929,990)	<b>Other Assets Net of Liabilities (25.5%)</b>				
USD	(1,175,000)	Consolidated Communications Inc. 6.500%, 2022-10-01	(1,351,872)	(1,449,043)	<b>TOTAL NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (100.0%)</b>				
USD	(1,000,000)	DISH DBS Corp. 5.875%, 2022-07-15	(1,217,255)	(1,241,450)	<b>354,761,111</b>				
USD	(800,000)	Harland Clarke Holdings Corp. 9.250%, 2021-03-01	(1,030,850)	(1,012,891)	<i>*CCY denotes local currency of security</i>				
USD	(1,000,000)	Infor US Inc. 6.500%, 2022-05-15	(1,314,277)	(1,323,665)					
USD	(1,000,000)	Meredith Corp. 6.875%, 2026-02-01	(1,310,958)	(1,300,645)					
USD	(1,000,000)	Multi-Color Corp. 4.875%, 2025-11-01	(1,203,936)	(1,228,295)					
USD	(1,000,000)	Platform Specialty Products Corp. 5.875%, 2025-12-01	(1,244,375)	(1,287,490)					
USD	(1,000,000)	Post Holdings Inc. 5.000%, 2026-08-15	(1,219,854)	(1,229,939)					
USD	(1,000,000)	Prestige Brands Inc. 6.375%, 2024-03-01	(1,294,717)	(1,308,866)					
USD	(1,000,000)	Realogy Group LLC / Realogy Co-Issuer Corp. 4.875%, 2023-06-01	(1,236,917)	(1,245,685)					
USD	(1,000,000)	Tempur Sealy International Inc. 5.500%, 2026-06-15	(1,246,545)	(1,275,980)					
USD	(1,000,000)	TreeHouse Foods Inc. 6.000%, 2024-02-15	(1,353,737)	(1,348,395)					
USD	(1,000,000)	Tronox Inc. 6.500%, 2026-04-15	(1,276,938)	(1,310,510)					
USD	(1,000,000)	TTM Technologies Inc. 5.625%, 2025-10-01	(1,252,915)	(1,285,846)					
USD	(425,000)	United States Treasury Note 2.250%, 2027-11-15	(506,976)	(531,536)					
USD	(320,000)	United States Treasury Note 3.000%, 2047-05-15	(411,782)	(422,274)					
USD	(2,000,000)	United States Treasury Note 2.750%, 2047-11-15	(2,398,094)	(2,511,007)					
			<u>(29,649,291)</u>	<u>(30,158,846)</u>					
<b>International Corporate Debt (-0.9%)</b>									
USD	(1,000,000)	Nielsen Co. Luxembourg SARL 5.000%, 2025-02-01	(1,262,691)	(1,256,248)					
USD	(1,000,000)	Telecom Italia SpA 5.303%, 2024-05-30	(1,281,818)	(1,302,289)					
USD	(600,000)	Telefonica Emisiones SAU 4.103%, 2027-03-08	(760,602)	(764,663)					
			<u>(3,305,111)</u>	<u>(3,323,200)</u>					
<b>Total Global Debt - Short</b>			<b><u>(32,954,402)</u></b>	<b><u>(33,482,046)</u></b>					

# PICTON MAHONEY FORTIFIED INCOME FUND

## APPENDIX A

### OPTIONS (0.3%)

Issuer	Option Type	Number of Options	Strike	Expiry	Average Cost \$	Fair Value \$
CBT US Treasury Long-Term Bond	Written Put Option	262	\$142	July, 2018	55,093	53,851
First Quantum Minerals Ltd.	Written Put Option	696	\$19	July, 2018	32,712	56,028
iShares Russell 2000 ETF	Written Put Option	865	\$154	July, 2018	45,515	50,635
iShares iBoxx High Yield Corporate Bond ETF	Written Put Option	1,707	\$84	July, 2018	65,119	65,119
iShares iBoxx High Yield Corporate Bond ETF	Written Put Option	1,708	\$85	July, 2018	56,169	143,794
iShares Russell 2000 ETF	Written Put Option	1,730	\$155	July, 2018	138,819	121,751
iShares S&P/TSX Capped Fin	Written Put Option	1,731	\$36	July, 2018	45,006	15,579
iShares iBoxx High Yield Corporate Bond ETF	Written Put Option	1,764	\$84	August, 2018	85,857	161,272
iShares iBoxx High Yield Corporate Bond ETF	Written Put Option	1,778	\$82	September, 2018	93,654	167,328
Sanchez Energy Corp.	Written Put Option	3,176	\$6	July, 2018	42,194	5,796
<b>Total Purchased Options</b>					<b>660,138</b>	<b>841,153</b>
iShares Russell 2000 ETF	Put Option	(2,595)	\$137	July, 2018	(71,686)	(18,775)
iShares iBoxx High Yield Corporate Bond ETF	Put Option	(1,778)	\$76	September, 2018	(28,066)	(45,608)
iShares iBoxx High Yield Corporate Bond ETF	Put Option	(1,764)	\$75	August, 2018	(11,603)	(12,763)
iShares iBoxx High Yield Corporate Bond ETF	Put Option	(1,730)	\$78	July, 2018	(25,033)	(11,753)
iShares iBoxx High Yield Corporate Bond ETF	Put Option	(1,685)	\$77	July, 2018	(17,732)	(11,295)
First Quantum Minerals Ltd.	Put Option	(696)	\$15	July, 2018	(6,960)	(7,308)
CBT US Treasury Long-Term Bond	Put Option	(262)	\$135	July, 2018	(17,964)	(5,385)
<b>Total Written Options</b>					<b>(179,044)</b>	<b>(112,887)</b>

## APPENDIX B

### FOREIGN EXCHANGE FORWARD CONTRACTS (2.5%)

Purchased Currency	Sold Currency	Forward Rate	Maturity Date	Fair Value (\$)	Counterparty	Credit Rating
USD \$5,000,000	CAD \$6,432,625	1.28653	2018-08-16	138,884	Canadian Imperial Bank of Commerce	A-1
<b>Unrealized gain on foreign exchange forward contracts at fair value</b>				<b>138,884</b>		
EUR \$117,000	CAD \$180,239	1.54050	2018-08-09	(109)	The Royal Bank of Canada	A-1+
CAD \$3,889,380	USD \$3,000,000	1.29646	2018-08-16	(53,597)	Canadian Imperial Bank of Commerce	A-1
CAD \$9,741,488	USD \$7,500,000	1.29887	2018-08-16	(115,996)	Canadian Imperial Bank of Commerce	A-1
CAD \$5,922,201	USD \$4,600,000	1.28744	2018-08-16	(123,598)	Canadian Imperial Bank of Commerce	A-1
CAD \$233,534,054	USD \$181,500,000	1.28669	2018-08-16	(5,011,811)	Canadian Imperial Bank of Commerce	A-1
<b>Unrealized loss on foreign exchange forward contracts at fair value</b>				<b>(5,305,111)</b>		
<b>Net unrealized gain (loss) on foreign exchange forward contracts at fair value</b>				<b>(5,166,227)</b>		

# PICTON MAHONEY FORTIFIED INCOME 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	1,932,173	-	-	1,932,173
Bonds - Long	-	306,872,830	550,000	307,422,830
Options - Long	841,153	-	-	841,153
Bonds - Short	-	(40,633,771)	-	(40,633,771)
Options - Short	(112,887)	-	-	(112,887)
Forward Contracts	-	(5,166,227)	-	(5,166,227)
<b>Total</b>	<b>2,660,439</b>	<b>261,072,832</b>	<b>550,000</b>	<b>264,283,271</b>

ASSETS (LIABILITIES) AT FAIR VALUE AS AT DECEMBER 31, 2017				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities - Long	3,303,132	-	-	3,303,132
Bonds - Long	-	181,499,654	550,000	182,049,654
Options - Long	201,936	-	-	201,936
Equities - Short	(1,093,322)	-	-	(1,093,322)
Bonds - Short	-	(12,677,730)	-	(12,677,730)
Options - Short	(60,294)	-	-	(60,294)
Forward Contracts	-	742,681	-	742,681
<b>Total</b>	<b>2,351,452</b>	<b>169,564,605</b>	<b>550,000</b>	<b>172,466,057</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, 2018 and December 31, 2017.

June 30, 2018	Debt Instruments - Long \$	Debt Instruments - Short \$	Total \$
<b>Balance at Beginning of Period</b>	550,000	-	550,000
Investment purchases during the period	-	-	-
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>550,000</b>	<b>-</b>	<b>550,000</b>
<b>Total change in unrealized appreciation (depreciation) for assets held as at June 30, 2018</b>			<b>-</b>

December 31, 2017	Debt Instruments - Long \$	Debt Instruments - Short \$	Total \$
<b>Balance at Beginning of Year</b>	-	-	-
Investment purchases during the year	550,000	-	550,000
Proceeds from sales during the year	-	-	-
Transfers in during the year	-	-	-
Transfers out during the year	-	-	-
Net realized gain (loss) on sale of investments	-	-	-
Change in unrealized appreciation (depreciation) in value of investments	-	-	-
<b>Balance at End of Year</b>	<b>550,000</b>	<b>-</b>	<b>550,000</b>
<b>Total change in unrealized appreciation (depreciation) for assets held as at December 31, 2017</b>			<b>-</b>

## PICTON MAHONEY FORTIFIED INCOME FUND

### FUND SPECIFIC NOTES (CONTINUED)

During the period ended June 30, 2018 and the year ended December 31, 2017, 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 \$27,500 as at June 30, 2018 (December 31, 2017 - \$27,500).

June 30, 2018							
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 6.889%, 2019-04-15	\$275,000	Recent financing	Purchase price	5%	5%	\$13,750	\$(13,750)
Fusion Trust Series D Medium Term Note 6.889%, 2019-04-15	\$275,000	Recent financing	Purchase price	5%	5%	\$13,750	\$(13,750)

  

December 31, 2017							
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 6.889%, 2019-04-15	\$275,000	Recent financing	Purchase price	5%	5%	\$13,750	\$(13,750)
Fusion Trust Series D Medium Term Note 6.889%, 2019-04-15	\$275,000	Recent financing	Purchase price	5%	5%	\$13,750	\$(13,750)

### 3. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

As at June 30, 2018 and December 31, 2017

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			Net \$
	Gross Assets / (Liabilities) \$	Financial Instruments \$	Collateral received/paid \$	
<b>June 30, 2018</b>				
Derivative assets - Foreign exchange forward contracts	138,884	(138,884)	-	-
Derivative liabilities - Foreign exchange forward contracts	(5,305,111)	138,884	-	(5,166,227)
<b>December 31, 2017</b>				
Derivative assets - Foreign exchange forward contracts	1,142,490	(399,809)	-	742,681
Derivative liabilities - Forward exchange forward contracts	(399,809)	399,809	-	-

### 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, 2018, there was \$6,860,646 (Collateral - \$6,997,860) of securities on loan (December 31, 2017 - \$6,857,245 (Collateral - \$6,994,392) 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	13,880	270
Securities lending charges	(4,858)	(95)
<b>Net securities lending income</b>	<b>9,022</b>	<b>175</b>
Withholding taxes on securities lending income	(2,113)	(3)
<b>Net securities lending income received by the Fund</b>	<b>6,909</b>	<b>172</b>
Security lending charges percentage of gross securities lending income	35%	35%

# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 5. 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 75% BofA Merrill Lynch Global High Yield Index (hedged to Canadian dollars) and 25% BofA Merrill Lynch Global Corporate Index (hedged to Canadian dollars) were to increase or decrease by 10%, net assets would have increased or decreased by approximately \$38,268,158 (December 31, 2017 - \$23,418,282). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### 6. 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	241,012,180	1,428,033	(252,040,220)	(9,600,007)	-2.7%
Euro	(22,266)	-	179,695	157,429	0.0%
<b>Net Exposure</b>	<b>240,989,914</b>	<b>1,428,033</b>	<b>(251,860,525)</b>	<b>(9,442,578)</b>	<b>-2.7%</b>

FINANCIAL INSTRUMENTS					
December 31, 2017 Currency	Monetary \$	Non-Monetary \$	Forwards Currency Contracts \$	Total \$	Percentage of Net Assets %
United States Dollar	143,395,301	855,260	(143,370,057)	880,504	0.4%
European Euro	3,518,022	-	(4,202,187)	(684,165)	-0.3%
<b>Net Exposure</b>	<b>146,913,323</b>	<b>855,260</b>	<b>(147,572,244)</b>	<b>196,339</b>	<b>0.1%</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 (\$472,129) (December 31, 2017 - \$9,817). 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 \$10,304,310 (December 31, 2017 - \$6,129,527). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

As at June 30, 2018 and December 31, 2017, the Fund's exposure to debt instruments by maturity were as follows:

Debt Instruments by Maturity Date	June 30, 2018 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	6,928,570	-	6,928,570
1-3 years	13,564,310	(1,012,891)	12,551,419
3-5 years	51,143,925	(5,259,843)	45,884,082
Greater than 5 years	235,786,025	(34,361,037)	201,424,988
<b>Total</b>	<b>307,422,830</b>	<b>(40,633,771)</b>	<b>266,789,059</b>

Debt Instruments by Maturity Date	December 31, 2017 (\$)		
	Long Positions	Short Positions	Total
Less than 1 year	6,427,328	-	6,427,328
1-3 years	1,109,625	-	1,109,625
3-5 years	33,859,543	(1,582,156)	32,277,387
Greater than 5 years	140,653,158	(11,095,574)	129,557,584
<b>Total</b>	<b>182,049,654</b>	<b>(12,677,730)</b>	<b>169,371,924</b>

# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 8. CREDIT RISK

The following table below shows 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-1 or higher as at June 30, 2018 and December 31, 2017.

June 30, 2018				December 31, 2017			
Bond Ratings	Net	Long	Short	Bond Ratings	Net	Long	Short
AAA	-2.05%	0.00%	-2.05%	AAA	-2.85%	0.00%	-2.85%
A-	-0.55%	0.00%	-0.55%	A	1.62%	1.62%	0.00%
BBB+	0.77%	0.77%	0.00%	BBB+	1.68%	1.68%	0.00%
BBB	3.38%	3.60%	-0.22%	BBB	4.74%	4.74%	0.00%
BBB-	5.45%	5.45%	0.00%	BBB-	5.75%	5.75%	0.00%
BB+	9.09%	9.46%	-0.37%	BB+	3.65%	3.65%	0.00%
BB	3.04%	3.39%	-0.35%	BB	13.42%	13.42%	0.00%
BB-	18.58%	20.63%	-2.05%	BB-	12.81%	13.79%	-0.98%
B+	5.82%	7.37%	-1.55%	B+	7.11%	8.47%	-1.36%
B	11.89%	13.29%	-1.40%	B	14.95%	15.24%	-0.29%
B-	14.85%	16.97%	-2.12%	B-	12.43%	13.36%	-0.93%
CCC+	1.59%	2.80%	-1.21%	CCC+	3.39%	3.70%	-0.31%
NR	4.04%	4.04%	0.00%	NR	3.95%	3.95%	0.00%

The above credit ratings are obtained and disclosed from the rating services in the following hierarchical order: 1) Moody's; 2) Standard & Poor's; 3) Fitch; 4) Dominion Bond Rating Service, using first available.

### 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, 2018 and December 31, 2017.

Jurisdiction	% of Net Assets	
	June 30, 2018	December 31, 2017
<b>Equities</b>		
Canada	0.1%	0.7%
United States	0.4%	0.5%
<b>Debt</b>		
Canada	33.2%	23.9%
United States	25.3%	30.0%
International	16.8%	28.5%
<b>Derivatives</b>	-1.3%	0.5%



# PICTON MAHONEY FORTIFIED INCOME FUND

## FUND SPECIFIC NOTES (CONTINUED)

### 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 amount 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	40,633,771	-	-	40,633,771
Distributions payable	4,110	-	-	4,110
Redemptions payable	1,674,348	-	-	1,674,348
Accrued liabilities and other payables	-	10,764,534	-	10,764,534
Derivative liabilities	5,417,998	-	-	5,417,998

  

December 31, 2017 Financial Liabilities	On Demand \$	< 3 months \$	> 3 months \$	Total \$
Short positions	13,771,052	-	-	13,771,052
Distributions payable	81	-	-	81
Redemptions payable	173,805	-	-	173,805
Accrued liabilities and other payables	-	401,315	-	401,315
Derivative liabilities	460,103	-	-	460,103

### 11. 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	2,311,429	12,909,550	1,009,003	121,518	1,838,343	278,228	1,458,367	202,954	33,059	569,046
Units issued	1,549,889	12,143,815	885,301	83,708	782,524	834,914	3,486,359	428,833	66,849	703,449
Units reinvested	48,809	223,670	-	-	38,990	9,904	42,215	-	-	16,301
Units redeemed	(284,552)	(1,432,171)	(70,908)	(15,630)	-	(46,245)	(186,523)	(19,168)	(7,296)	-
<b>Units issued and outstanding, end of period</b>	<b>3,625,575</b>	<b>23,844,864</b>	<b>1,823,396</b>	<b>189,596</b>	<b>2,659,857</b>	<b>1,076,801</b>	<b>4,800,418</b>	<b>612,619</b>	<b>92,612</b>	<b>1,288,796</b>
<b>Weighted average number of units held during the period</b>	<b>3,089,819</b>	<b>19,191,583</b>	<b>1,317,555</b>	<b>157,650</b>	<b>2,160,438</b>	<b>600,401</b>	<b>2,924,010</b>	<b>439,519</b>	<b>61,414</b>	<b>911,291</b>

### 12. COMMISSIONS

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

	2018	2017
Brokerage commissions	299	73
Soft Dollar commissions	-	-

### 13. TAX LOSS CARRY FORWARDS

As at December 31 (in \$000)

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

# PICTON MAHONEY FORTIFIED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2018 (unaudited)

### 1. GENERAL INFORMATION

Picton Mahoney Fortified Income 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 maximize total return to unit-holders through income and capital appreciation by investing primarily in global income 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 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.

#### (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, warrants, and exchanged traded funds 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

# PICTON MAHONEY FORTIFIED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2018 (unaudited)

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.

### (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 INCOME 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 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. The Manager has determined that all of the underlying funds in which the Funds invest are unconsolidated structured entities. In making this determination, the Manager evaluated the fact that decision making about the underlying funds' activities is not governed by voting or similar rights held by the Funds and other investors in any underlying funds.

The Fund invests in mortgage-related and other asset-backed securities. These securities include mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The Manager has determined that such securities are also unconsolidated structured entities. The debt and equity securities issued by these securities may include tranches with varying levels of subordination. These securities may provide a monthly payment which consists of both interest and principal payments.

Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. The carrying value of mortgage related and other asset-backed securities are disclosed in the Schedule of Investment Portfolio. The fair value of such securities as at June 30, 2018 represents the maximum exposure in losses at that date. The change in fair value of mortgage related and other asset backed securities are included in the Statement of Comprehensive Income and Change in unrealized appreciation (depreciation) on investments, options, and foreign exchange forward contracts.

## 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.

# PICTON MAHONEY FORTIFIED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2018 (unaudited)

*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.

### 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. 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 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 primarily invests in fixed income securities and is therefore exposed to the credit risk of the underlying fixed income portfolio. Refer to Note 6 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 with the exception of bonds sold short. At the Manager's discretion, bonds sold short can be repurchased to settle the liability immediately. 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.



# PICTON MAHONEY FORTIFIED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2018 (unaudited)

### 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.

### 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 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 has elected 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, are 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.

# PICTON MAHONEY FORTIFIED INCOME FUND

## NOTES TO THE FINANCIAL STATEMENTS

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As at June 30, 2018 (unaudited)

### 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 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 75% BofA Merrill Lynch Global High Yield Index (hedged to Canadian dollars) and 25% BofA Merrill Lynch Global Corporate Index (hedged to Canadian dollars) (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.**



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

### **Corporate Address**

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

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

#### **Picton Mahoney Funds**

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155 Wellington Street West, 3<sup>rd</sup> Floor  
Toronto, ON  
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