



**Healthcare Special Opportunities Fund**

Financial Statements

December 31, 2020

## INDEPENDENT AUDITOR'S REPORT

To the Unitholders of  
Healthcare Special Opportunities Fund (the "Fund")

### Opinion

We have audited the financial statements of the Fund, which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in net assets attributable to holders of redeemable units and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Tedesco.

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script.

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
March 15, 2021

# Healthcare Special Opportunities Fund

## Statements of Financial Position

As at December 31,

	2020	2019
<b>Assets</b>		
<b>Current assets</b>		
Financial assets at fair value through profit or loss (note 3)	\$ 35,415,343	\$ 35,864,486
Cash	544,832	689,967
Accrued dividends	35,429	41,905
Accrued interest	25,707	9,362
<b>Total assets</b>	<b>36,021,311</b>	<b>36,605,720</b>
<b>Current liabilities</b>		
Accrued performance fees	22,200	141,594
Accrued expenses	44,039	106,351
Management fees payable	39,382	39,901
Performance fee payable	-	42,167
<b>Total liabilities (excluding Net Assets attributable to holders of redeemable units)</b>	<b>105,621</b>	<b>330,013</b>
<b>Net Assets attributable to holders of redeemable units (note 4)</b>	<b>\$ 35,915,690</b>	<b>\$ 36,275,707</b>
<b>Net Assets attributable to holders of redeemable units per class</b>		
Class A	\$ 35,816,353	\$ 36,008,359
Class U	\$ 99,337	\$ 267,348
<b>Net Assets attributable to holders of redeemable units per class per unit (note 4)</b>		
Class A	\$ 13.61	\$ 13.33
Class U	\$ 17.74	\$ 17.14

Approved on behalf of LDIC Inc., as manager of the Healthcare Special Opportunities Fund.

/s/ Michael B. Decter

Michael B. Decter, Director

/s/ Beryl McCallum

Beryl McCallum, Director

# Healthcare Special Opportunities Fund

## Statements of Comprehensive Income

For the years ended December 31,

	2020	2019
<b>Net gain (loss) on financial instruments</b>		
Dividend income	\$ 391,784	\$ 343,092
Interest for distribution purposes	20,473	83,241
Foreign exchange gain (loss)	200,416	20,822
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss		
Net realized gain (loss) on sale of investments	5,674,594	2,179,236
Change in unrealized appreciation (depreciation) in value of investments	(3,801,594)	3,756,555
Change in unrealized appreciation (depreciation) in value of foreign exchange from currency	7,701	(68,813)
<b>Net gain (loss) on financial instruments</b>	<b>2,493,374</b>	<b>6,314,133</b>
<b>Expenses (note 5)</b>		
Management fees	480,373	497,002
Transaction costs (note 7)	89,878	78,419
Valuation fees	31,960	30,241
Securityholder reporting costs	31,470	30,523
Other expenses	25,032	24,637
Audit fees	20,561	20,973
Legal fees	15,745	13,974
Filing fees	13,304	12,382
Custodian fees	8,340	8,072
Independent review committee fees	3,336	3,229
Performance fees (recoveries)	(104,071)	(7,603)
<b>Total operating expenses</b>	<b>615,928</b>	<b>711,849</b>
<b>Operating profit (loss)</b>	<b>1,877,446</b>	<b>5,602,284</b>
Withholding taxes (note 6)	(44,167)	(65,539)
<b>Increase (decrease) in Net Assets attributable to holders of redeemable units from operations (excluding distributions)</b>	<b>\$ 1,833,279</b>	<b>\$ 5,536,745</b>
<b>Increase (decrease) in Net Assets attributable to holders of redeemable units per class from operations (excluding distributions)</b>		
Class A	\$ 1,838,816	\$ 5,465,583
Class U	\$ (5,537)	\$ 71,162
<b>Average number of units outstanding for the year per class</b>		
Class A	2,674,535	2,873,245
Class U	10,586	37,503
<b>Increase (decrease) in Net Assets attributable to holders of redeemable units per unit from operations (excluding distributions)</b>		
Class A	\$ 0.69	\$ 1.90
Class U	\$ (0.52)	\$ 1.90

The accompanying notes are an integral part of these financial statements

**Healthcare Special Opportunities Fund**  
**Statements of Changes in Net Assets Attributable to Holders of Redeemable Units**  
For the years ended December 31,

	2020		2019	
	Class A		Class U	
<b>Net Assets attributable to holders of redeemable units at beginning of year</b>	\$	<b>36,008,359</b>	\$	34,671,576
<b>Increase (decrease) in Net Assets attributable to holders of redeemable units from operations (excluding distributions)</b>		<b>1,838,816</b>		5,465,583
<b>Redeemable unit transactions</b>				
Redemption of redeemable units		(936,545)		(3,572,333)
Class U redeemable units converted into Class A redeemable units		79,469		203,151
Class A redeemable units converted into Class U redeemable units		-		(82,408)
		<b>(857,076)</b>		(3,451,590)
<b>Distributions to holders of redeemable units</b>				
From net investment income		-		-
From net realized capital gains		(1,173,746)		(3,075)
Return of capital		-		(677,210)
		<b>(1,173,746)</b>		(677,210)
<b>Net increase (decrease) in Net Assets attributable to holders of redeemable units</b>		<b>(192,006)</b>		1,336,783
<b>Net Assets attributable to holders of redeemable units at end of year</b>	\$	<b>35,816,353</b>	\$	36,008,359

  

	2020		2019	
	Total			
<b>Net Assets attributable to holders of redeemable units at beginning of year</b>	\$	<b>36,275,707</b>	\$	35,572,672
<b>Increase (decrease) in Net Assets attributable to holders of redeemable units from operations (excluding distributions)</b>		<b>1,833,279</b>		5,536,745
<b>Redeemable unit transactions</b>				
Redemption of redeemable units		(1,016,475)		(4,146,343)
Class U redeemable units converted into Class A redeemable units		-		-
Class A redeemable units converted into Class U redeemable units		-		-
		<b>(1,016,475)</b>		(4,146,343)
<b>Distributions to holders of redeemable units</b>				
From net investment income		-		-
From net realized capital gains		(1,176,821)		-
Return of capital		-		(687,367)
		<b>(1,176,821)</b>		(687,367)
<b>Net increase (decrease) in Net Assets attributable to holders of redeemable units</b>		<b>(360,017)</b>		703,035
<b>Net Assets attributable to holders of redeemable units at end of year</b>	\$	<b>35,915,690</b>	\$	36,275,707

The accompanying notes are an integral part of these financial statements

# Healthcare Special Opportunities Fund

## Statements of Cash Flows

For the years ended December 31,

	2020	2019
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in Net Assets attributable to holders of redeemable units from operations (excluding distributions)	1,833,279	\$ 5,536,745
Adjustments for:		
Foreign exchange (gain) loss	(200,416)	(20,822)
Net realized (gain) loss on sale of investments	(5,674,594)	(2,179,236)
Change in unrealized (appreciation) depreciation in value of investments	3,801,594	(3,756,555)
Purchases of investments	(29,946,416)	(19,917,900)
Proceeds from sale of investments	32,268,559	23,687,488
Accrued dividends	6,476	38,400
Accrued interest	(16,345)	(8,770)
Accrued expenses	(62,312)	858
Performance fees	(119,394)	(82,725)
Management fees payable	(519)	6,399
Other payable	(42,167)	42,167
<b>Net cash from (used in) operating activities</b>	<b>1,847,745</b>	<b>3,346,049</b>
<b>Cash flows from (used in) financing activities</b>		
Distributions paid to holders of redeemable units, net of reinvested distributions	(1,176,821)	(886,817)
Redemption of redeemable units	(1,016,475)	(4,146,343)
<b>Net cash from (used in) financing activities</b>	<b>(2,193,296)</b>	<b>(5,033,160)</b>
Foreign exchange gain (loss)	200,416	20,822
Net increase (decrease) in cash	(345,551)	(1,687,111)
Cash at beginning of year	689,967	2,356,256
<b>Cash at end of year</b>	<b>\$ 544,832</b>	<b>\$ 689,967</b>
<b>Supplemental Cash Flow Information:</b>		
Dividends received, net of withholding taxes	\$ 354,093	\$ 315,953
Interest received	4,128	74,471

# Healthcare Special Opportunities Fund

## Schedule of Investment Portfolio

As at December 31, 2020

Number of Shares or Par Value		Coupon Rate/ Yield (%)	Maturity Date	Average Cost \$	Fair Value \$	Percentage of Net Assets %
<b>Bonds</b>						
<b>Canadian Corporate Bonds</b>						
200,000	Grey Wolf Animal Health Inc.	6.000%	20-Dec-23	\$ 200,000	\$ 200,000	
150,000	Grey Wolf Animal Health Inc.	5.000%	16-Jun-25	150,000	150,000	
63,000	Sustainable Produce Urban Delivery Inc.	8.500%	21-Apr-22	63,000	62,824	
				<u>413,000</u>	<u>412,824</u>	1.15
	<b>Total Bonds</b>			<u>413,000</u>	<u>412,824</u>	1.15
<b>Canadian Equities</b>						
<b>Consumer Discretionary</b>						
62,700	Park Lawn Corp.			1,540,573	1,751,837	
				<u>1,540,573</u>	<u>1,751,837</u>	4.88
<b>Financials</b>						
250,000	Investx Series 19-08			319,024	318,500	
				<u>319,024</u>	<u>318,500</u>	0.89
<b>Health Care</b>						
300,215	Akumin Inc.			919,917	1,151,245	
75,075	Arthritis Innovation Corp.			250,000	250,000	
250	Cairn Memory Care Opportunities Fund LP			250,000	250,000	
218	Cairn Memory Care Opportunities Fund LP			218,000	218,000	
91,000	DionyMed Brands Inc., Warrants		7-May-22	-	-	
192,300	Grey Wolf Animal Health Inc.			249,990	288,450	
481,313	Grey Wolf Animal Health Inc., Subscription Agreement			425,000	721,970	
40,000	Grey Wolf Animal Health Inc., Warrants		20-Dec-21	-	-	
250,000	Hamilton Thorne Ltd.			352,425	350,000	
350,000	Microbix Biosystems Inc., Warrants		18-Oct-21	-	22,750	
591,066	NeuPath Health Inc.			501,705	455,121	
37,500	Neupath Health Inc., Warrants		11-Dec-21	-	-	
175,000	Neupath Health Inc., Warrants		28-Mar-22	-	-	
500,000	Therma Bright Inc.			98,750	107,500	
76,200	TRC Management Holdings Corp.			400,050	355,092	
145,000	TRC Management Holdings Corp., Subscription Agreement			507,500	675,700	
25,000	Viemed Healthcare Inc.			341,323	248,750	
28,900	Zymeworks Inc.			1,062,006	1,740,046	
				<u>5,576,666</u>	<u>6,834,624</u>	19.03
<b>Industrial</b>						
57,800	Morneau Shepell Inc.			1,549,270	1,793,534	
				<u>1,549,270</u>	<u>1,793,534</u>	4.99
<b>Information Technology</b>						
170,850	Vitalhub Corp.			429,057	486,923	
				<u>429,057</u>	<u>486,923</u>	1.35
<b>Real Estate</b>						
5,500	FirstService Corp.			842,221	958,210	
				<u>842,221</u>	<u>958,210</u>	2.67
	<b>Total Canadian Equities</b>			<u>10,256,811</u>	<u>12,143,628</u>	33.81
<b>Foreign Equities</b>						
<b>Consumer Staples</b>						
5,550	Walmart Inc.			1,018,713	1,019,241	
				<u>1,018,713</u>	<u>1,019,241</u>	2.84

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

# Healthcare Special Opportunities Fund

## Schedule of Investment Portfolio (continued)

As at December 31, 2020

<b>Health Care</b>				
9,600	Abbott Laboratories	1,191,722	1,339,105	
2,200	AstraZeneca PLC	157,144	140,112	
6,015	Becton Dickinson and Co.	1,648,522	1,917,462	
16,200	Boston Scientific Corp.	820,237	741,964	
800	Eli Lilly and Co.	156,348	172,082	
4,800	Gilead Sciences Inc.	364,139	356,271	
2,145	Intuitive Surgical Inc.	1,786,061	2,235,645	
8,500	Johnson & Johnson	1,662,275	1,704,267	
1,380	Laboratory Corp of America Holdings	364,555	357,865	
18,410	Medtronic PLC	2,458,449	2,747,439	
12,200	Merck & Co., Inc.	1,012,298	1,271,400	
2,300	Quest Diagnostics Inc.	367,048	349,192	
107,435	R1 RCM Inc.	1,199,958	3,287,667	
7,940	Stryker Corp.	2,113,599	2,478,715	
2,225	UnitedHealth Group Inc.	619,500	994,054	
2,500	Vertex Pharmaceuticals Inc.	708,277	752,742	
		<u>16,630,132</u>	<u>20,845,982</u>	58.04
<b>Real Estate</b>				
13,000	Healthcare Realty Trust Inc.	518,619	490,235	
22,200	Physicians Realty Trust	522,279	503,433	
		<u>1,040,898</u>	<u>993,668</u>	2.77
<b>Total Foreign Equities</b>		<u>18,689,743</u>	<u>22,858,891</u>	63.65
<b>Total Equities</b>		<u>28,946,554</u>	<u>35,002,519</u>	97.46
<b>Transaction costs</b>		<u>(35,661)</u>		
<b>Total Investments</b>		<u>29,323,893</u>	<u>35,415,343</u>	98.61
Other Assets Less Liabilities			<u>500,347</u>	1.39
<b>Net Assets Attributable to Holders of Redeemable Units</b>			<u>35,915,690</u>	100.00

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

# Healthcare Special Opportunities Fund

## Notes to Financial Statements

December 31, 2020 and 2019

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### 1. GENERAL INFORMATION

The Healthcare Special Opportunities Fund (the “Fund”) is a closed-end investment trust established under the laws of the Province of Ontario on June 26, 2015. LDIC Inc. (the “Manager”) is the Trustee and Manager of the Fund. The Fund was listed on the Toronto Stock Exchange (“TSX”) and commenced operations on July 15, 2015 when it first issued units through an initial public offering. The address of the Fund’s registered office is LDIC Inc., 130 King Street West, Suite 2130, Toronto, Ontario. These financial statements were authorized for issue by the Manager on March 03, 2021.

The investment objective of the Fund is principally set up to provide holders of units with long-term total return through distributions and capital appreciation of the Fund’s investment portfolio by investing in equity and debt securities of issuers that derive a significant portion of their revenue or earnings from medical and healthcare products and/or services.

### 2. BASIS OF PRESENTATION

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

The policies applied in these financial statements are based on IFRS standards issued and outstanding as of March 03, 2021, which is the date on which the financial statements were authorized for issue by the Manager.

In the preparation of these financial statements, management has made judgments, estimates and assumptions that affect the application of the Fund’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

These financial statements have been presented in Canadian dollars, which is the Fund’s functional currency.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) IFRS – Financial Instruments

The Fund applied IFRS 9, Financial Instruments (“IFRS 9”). The standard requires financial assets to be classified as amortized cost, fair value through profit or loss (“FVTPL”), or fair value through other comprehensive income (“FVOCI”) based on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of these assets. Assessment and decision on the business model approach used is an accounting judgment. The classification and measurement of financial liabilities remain generally unchanged with the exception of liabilities recorded at FVTPL. For these liabilities, fair value changes attributable to changes in the entity’s own credit risk are to be presented in other comprehensive income unless they affect amounts recorded in income. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amounts required to be received or paid, discounted when appropriate, at the financial instrument’s effective interest rate. The fair values of the Fund’s financial assets and liabilities that are not carried at FVTPL approximate their carrying amounts due to their short-term nature.

#### (b) Foreign currency translation

The Fund’s functional and presentation currency is the Canadian dollar. Foreign currency purchases and sales of investments and foreign currency dividend and interest income and expenses are translated into Canadian dollars at the rate of exchange prevailing at the date of the transactions.

Foreign exchange gains (losses) on purchases and sales of foreign currencies are included in the Statements of Comprehensive Income – Foreign exchange gain (loss).

The fair values of investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the Statement of Financial Position date.

# Healthcare Special Opportunities Fund

## Notes to Financial Statements

December 31, 2020 and 2019

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**(c) Fair value measurements**

Financial instruments are valued at their fair value, which is defined as 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 is 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.

The Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in 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).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

A valuation hierarchy table has been included in Note 10, Fair Value Disclosure.

**(d) Impairment of financial assets**

IFRS 9 requires that an entity recognize a loss allowance for expected credit losses on financial assets that are measured at amortized cost or FVOCI. Financial assets held by the Fund that are measured at FVTPL will not be subject to the new impairment requirements.

With respect to loans and receivables, the Fund considers both historical analysis and forward-looking information in determining any expected credit loss. As at the year-end date, all loans and receivables are due to be settled within the short term. The Fund considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation in the near term. Given the limited exposure of the Fund to credit risk, no loss allowance has been recognized as any such impairment will not have a significant impact on the financial statements.

**(e) Cash**

Cash comprises deposits held at financial institutions.

**(f) Multi-class allocation**

Expenses, realized and unrealized gains/losses and income generally are allocated among the classes on a pro-rata basis.

Class-specific management fees are not allocated and do not require allocation.

**(g) Transaction costs**

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities, are expensed and are included in "Transaction costs" in the Statements of Comprehensive Income.

# Healthcare Special Opportunities Fund

## Notes to Financial Statements

December 31, 2020 and 2019

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### (h) Investment transactions

Investment transactions are accounted for on the trade date. All income, net realized gains (losses), unrealized appreciation (depreciation) in the value of investments and transaction costs are attributable to investments that are deemed held for trading.

### (i) Revenue recognition

- The interest for distribution purposes shown on the Statements of Comprehensive Income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed-income securities, except for zero-coupon bonds, which are amortized on a straight-line basis.
- Dividend income is recorded on the ex-dividend date and is gross of withholding taxes.
- Realized gains and losses on investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments.

### (j) Increase (decrease) in Net Assets attributable to holders of redeemable units per unit

The increase (decrease) in Net Assets attributable to holders of redeemable units per unit in the Statements of Comprehensive Income represents the net increase (decrease) in Net Assets attributable to holders of redeemable units per unit, divided by the weighted average number of units outstanding during the year of that class of units.

### (k) Critical accounting estimates and judgments

- Fair value measurements of financial instruments not quoted in an active market

The Fund may hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. When no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry.

- Classification and measurement of financial instruments and application of fair value option

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments in determining the most appropriate classification in accordance with IFRS 9. The Manager has assessed the Fund's business models, the manner in which all financial assets and financial liabilities are managed and have their performance evaluated as a group on a fair value basis, and concluded that FVTPL in accordance with IFRS 9 provides the most appropriate classification of the Fund's financial instruments.

## 4. UNITS OF THE FUND

The Fund is authorized to issue an unlimited number of units of each class. The Class A units are denominated in Canadian dollars, and the Class U units are denominated in U.S. dollars. The Class U units will not be listed on a stock exchange, but are convertible into Class A units on a weekly basis for liquidity. It is expected that liquidity for the Class U units will be obtained primarily by means of conversion into Class A units and the sale of such Class A units on a stock exchange.

Units may be redeemed at the option of unitholders by tendering units of the Fund by the second last business day of July for redemptions ("Annual Redemption Date") commencing in 2017. Units must be properly surrendered for

# Healthcare Special Opportunities Fund

## Notes to Financial Statements

December 31, 2020 and 2019

redemption at least 30 days prior to an Annual Redemption Date in each year. Unitholders whose units are redeemed on the Annual Redemption Date will receive a redemption price per unit equal to 100% of the Net Asset Value (“NAV”) per unit of the applicable class on an Annual Redemption Date (less any costs associated with the redemption including brokerage costs).

In addition to the annual redemption right, Unitholders may surrender units at any time for redemption on the second last Business Day (a “Business Day” being a day other than a Saturday, Sunday or statutory holiday in Toronto, Ontario or any other day the TSX is not open for trading) in a month (a “Monthly Redemption Date”), subject to certain conditions. Unitholders surrendering a Class A unit for redemption on a Monthly Redemption Date will receive a redemption price equal to the lesser of (a) 95% of the “weighted average trading price” of the Class A units on the principal market on which the Class A units are quoted for trading, the TSX, during the 15 trading days preceding the applicable Monthly Redemption Date; and (b) the “closing market price” of the Class A units on the principal market on which the Class A units are quoted for trading on the applicable Monthly Redemption Date (the “Monthly Redemption Amount” less, in each case, any costs associated with the redemption, including brokerage costs). Unitholders surrendering a Class U unit for redemption on a Monthly Redemption Date will receive in U.S. dollars an amount equal to the U.S. dollar equivalent of the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated NAV per unit of a Class U unit and the denominator of which is the most recently calculated NAV per unit of a Class A unit, less any costs associated with the redemption, including brokerage costs.

On June 22, 2017, the Fund announced a normal course issuer bid (“NCIB”) to repurchase its Class A units. The Fund was authorized to repurchase up to 623,418 Class A units, representing approximately 10% of the public float. The Fund did not purchase in any given 30-day period, in the aggregate, more than 124,684 Class A units, being 2% of the issued and outstanding Class A units as of the date hereof. Purchase of Class A units under the NCIB commenced on July 28, 2017. All Class A units purchased by the Fund pursuant to the NCIB were cancelled. The NCIB expired on July 27, 2018 and was not renewed.

During the year ended December 31, 2020 and 2019, Class A units were not purchased for cancellation under the above NCIB.

### Issued

During the year, unit transactions of the Fund were as follows:

	2020	
	Number of Class A Units	Number of Class U Units
Units outstanding at January 1, 2020	2,700,771	15,600
Class U redeemable units converted to Class A redeemable units	6,423	(5,000)
Class A redeemable units converted to Class U redeemable units	-	-
Redemption of redeemable units	(74,935)	(5,000)
Units outstanding at December 31, 2020	2,632,259	5,600
	2019	
	Number of Class A Units	Number of Class U Units
Units outstanding at January 1, 2019	2,984,572	60,900
Class U redeemable units converted to Class A redeemable units	16,903	(13,109)
Class A redeemable units converted to Class U redeemable units	(6,842)	5,309
Redemption of redeemable units	(293,862)	(37,500)
Units outstanding at December 31, 2019	2,700,771	15,600

On December 31, 2020, the Fund’s closing market price was \$13.70 per Class A unit (December 31, 2019 - \$12.50 per Class A unit).

# Healthcare Special Opportunities Fund

## Notes to Financial Statements

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### 5. RELATED PARTY TRANSACTIONS

As at December 31, 2020, the Manager of the Fund and certain Directors and Officers of the Manager held a total of 294,328 (2019 - 294,328) Class A units of the Fund.

#### **Management fees, performance fees and operating expenses**

The Manager provides investment and administrative services to the Fund. In consideration for these services, the Manager receives a 1.25% fee per annum based on a percentage of the Net Assets of the Fund calculated daily and payable monthly.

The Manager is entitled to be paid a performance fee (the "Performance Fee") from the Fund in respect of investments in the private equity investments (the "Private Portfolio") including, for the purpose of calculating the Performance Fee, securities of private issuers in the Private Portfolio that have become publicly traded and public securities received on the disposition of securities of a private issuer in the Private Portfolio. The amount of the Performance Fee shall be determined as of the date of disposition (the "Determination Date") for cash proceeds of each such investment.

The Performance Fee in respect of each investment will be equal to 20% of the amount by which the cash proceeds of disposition exceed 106% of the Threshold Amount (as defined below) calculated on a cumulative annual basis plus applicable taxes.

The Performance Fee shall be calculated and accrue daily and be paid upon each Determination Date; however, no Performance Fee shall be paid in respect of any dispositions of securities of private issuers in the Private Portfolio unless on the Determination Date the proceeds of disposition of the investment exceed 107% of the original book value of the investment (the "Threshold Amount").

The Fund is responsible for the payment of all expenses relating to its operations and the carrying on of its business. These expenses include, but are not limited to, administration and accounting costs, the costs of any back-office service provider retained by the Manager, transaction costs, audit and legal fees, custodian fees, the costs of preparing and distributing annual and semi-annual financial statements, unitholder reports and investor communications. At certain times, the Manager may pay a portion of the expenses otherwise payable by the Fund.

### 6. TAXATION OF THE FUND AND ALLOCATION TO UNITHOLDERS

The Fund qualifies as a mutual fund trust as defined in the *Income Tax Act* (Canada) (the "Act"). Pursuant to the terms of the Declaration of Trust, the Fund pays or makes payable in the calendar year to the unitholders all the net income and such portion of the net capital gains that will result in the Fund paying no tax under the current provisions of the Act. As a result, under existing tax legislation, the net income and net capital gains are taxable in the hands of the unitholders of the Fund. Accordingly, no provision for Canadian income taxes has been made in these financial statements.

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

The Fund has accumulated capital loss carryforwards as of December 31, 2020 of nil (2019 - \$2,105,663), which may be applied against future years' capital gains and can be carried forward indefinitely. As of December 31, 2020, there was a nil (2019 - \$525,015) in non-capital losses available in the Fund.

# Healthcare Special Opportunities Fund

## Notes to Financial Statements

December 31, 2020 and 2019

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### 7. TRANSACTION COSTS

Commissions and other transaction fees paid for portfolio transactions for the year ended December 31, 2020 were \$89,878 (2019 - \$78,419).

### 8. SOFT DOLLAR COMMISSIONS

In addition to covering brokerage services on security transactions, commissions paid to certain brokers may also cover research services provided to the Manager. The value of the research services included in the commissions paid by the Fund to those brokers for the years ended December 31, 2020 and 2019 was \$25,830 and \$28,710, respectively.

### 9. FINANCIAL RISK MANAGEMENT

In the normal course of operations, the Fund's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (which includes interest rate risk, currency risk, other price risk and concentration risk). The value of investments in a Fund's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions and market news related to specific securities in the portfolio. The level of risk depends on the Fund's objectives and the type of securities that it holds. In order to mitigate risk, depending on conditions, the Manager diversifies the portfolio based on criteria such as asset class, country, industry and currency. Significant risks that are relevant to the Fund are discussed below. "Net Assets" below is defined as Net Assets attributable to unitholders.

#### (a) Credit risk

Credit risk represents the potential loss that the Fund would incur if counterparties failed to perform in accordance with the terms of their obligations to the Fund. The Manager only trades with approved counterparties and monitors reporting that includes approved counterparty listings, trade volumes and exposure reports. The risk of default is considered minimal, as delivery of securities sold is only made once the Fund has received payment. Payment is made on a purchase once the securities have been received by the Fund. The trade will fail if either party fails to meet its obligation. The Fund maintains all of its cash and cash equivalents at the custodian or in overnight deposits with approved counterparties and ensures that appropriate collateral is received.

As at December 31, 2020 and December 31, 2019, the Fund had directly invested in debt instruments with the following Standard & Poor's credit ratings:

Portfolio by rating category	As a % of Net Assets	
	December 31, 2020	December 31, 2019
Not Rated	1.2%	1.0%

#### (b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations associated with its financial liabilities. The Fund's primary exposure to liquidity risk relates to its unitholders' rights to redeem their units on any valuation date. Liquidity risk is managed by retaining sufficient cash and cash equivalent positions and investing the majority of the Fund's assets in portfolio investments that are traded in an active market and can be readily disposed of. There can be no assurance that an active trading market for the investments will exist at all times, or that the prices at which the securities trade accurately reflect their values.

Thin trading in a security could make it difficult to liquidate holdings quickly. The Manager considers market depth and the relationship between liquidity and size of the position as part of the criteria for approval of a new investment and in its periodic re-evaluation of the investment.

# Healthcare Special Opportunities Fund

## Notes to Financial Statements

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### (c) Market risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund's activities may expose it to different types of market risk including interest rate risk, currency risk, other price risk and concentration risk.

#### (i) Interest rate risk

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

As at December 31, 2020 and December 31, 2019, the Fund's direct exposure to debt instruments by maturity was as follows:

<b>Interest rate exposure</b>	<b>Less than 1 year (\$)</b>	<b>1 - 5 years (\$)</b>	<b>More than 5 years (\$)</b>	<b>Total (\$)</b>
<b>December 31, 2020</b>	-	<b>412,824</b>	-	<b>412,824</b>
December 31, 2019	150,000	200,000	-	350,000

As at December 31, 2020, should interest rates have decreased or increased by 0.25% with all other variables remaining constant, the increase or decrease in Net Assets for the year would amount to approximately \$1,558 (December 31, 2019 - \$1,867). In practice, the actual trading results may differ, and the difference could be material.

#### (ii) Currency risk

Currency risk is the risk that the fair value of financial instruments denominated in currencies other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate because of changes in foreign exchange rates.

	<b>December 31, 2020</b>		December 31, 2019	
	<b>Currency Exposure (\$)</b>	<b>Percentage of Net Assets (%)</b>	Currency Exposure (\$)	Percentage of Net Assets (%)
U.S. Dollar	<b>26,571,422</b>	<b>74.0</b>	25,023,003	69.0

As at December 31, 2020, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies represented in the portfolio, with all other variables remaining constant, Net Assets would have decreased or increased by approximately \$1,328,571 (December 31, 2019 - \$1,251,150). In practice, the actual results may differ and the difference could be material.

#### (iii) Other price risk

Other price risk represents the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment.

The Fund is exposed to other price risk from investments in equities. As at December 31, 2020, approximately 97.5% (December 31, 2019 - 97.9%) of the Fund's Net Assets were held directly in equities. If equity prices on the exchanges increased or decreased by 5% as at December 31, 2020, the Net Assets of the Fund would have increased or decreased by approximately \$1,750,126 or 4.9% (December 31, 2019 - \$1,775,724, or 4.9%) with all other factors remaining constant. In practice, the actual results may differ and the difference could be material.

# Healthcare Special Opportunities Fund

## Notes to Financial Statements

December 31, 2020 and 2019

### (iv) Concentration risk

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

<b>Investment Sector</b>	<b>December 31, 2020</b>	December 31, 2019
Corporate Bonds	<b>1.2%</b>	1.0%
Consumer Discretionary	<b>4.9%</b>	7.6%
Consumer Staples	<b>2.8%</b>	-
Financials	<b>0.9%</b>	-
Health Care	<b>77.0%</b>	77.7%
Industrials	<b>5.0%</b>	9.8%
Information Technology	<b>1.4%</b>	-
Real Estate	<b>5.4%</b>	2.8%
Net Other Assets/Liabilities	<b>1.4%</b>	1.1%
<b>Total</b>	<b>100.0%</b>	100.0%

The COVID-19 global pandemic is likely to have an ongoing effect on the financial markets where the Fund operates. The Fund's Manager performs routine risk assessment procedures and robust controls over its accounts, balances, and transactions. As at the financial statement issue date, there are no material events or conditions that impact the Fund's ability to continue as going concern.

### 10. FAIR VALUE DISCLOSURE

The following tables illustrate the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2020 and December 31, 2019:

	<b>Financial Assets at Fair Value as at December 31, 2020</b>			
	<b>Level 1 (\$)</b>	<b>Level 2 (\$)</b>	<b>Level 3 (\$)</b>	<b>Total (\$)</b>
<b>Equities</b>	<b>31,902,057</b>	<b>1,053,542</b>	<b>2,046,920</b>	<b>35,002,519</b>
<b>Bonds</b>	-	-	<b>412,824</b>	<b>412,824</b>
	<b>31,902,057</b>	<b>1,053,542</b>	<b>2,459,744</b>	<b>35,415,343</b>

	<b>Financial Assets at Fair Value as at December 31, 2019</b>			
	<b>Level 1 (\$)</b>	<b>Level 2 (\$)</b>	<b>Level 3 (\$)</b>	<b>Total (\$)</b>
Equities	31,666,255	141,488	3,706,743	35,514,486
Bonds	-	-	350,000	350,000
	31,666,255	141,488	4,056,743	35,864,486

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The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used to determine their fair value:

		Bonds	Equities
Balance as at December 31, 2019	\$	350,000	\$ 3,706,743
Purchases		63,000	319,025
Sales		-	(350,000)
Net transfers in (out)		-	(1,459,920)
Realized gains (losses)		-	-
Change in unrealized appreciation (depreciation) on investments		(176)	(168,928)
Balance as at December 31, 2020	\$	412,824	\$ 2,046,920
Net change in unrealized appreciation from investments as at December 31, 2020	\$	(176)	\$ (168,928)

		Bonds	Equities
Balance as at December 31, 2018	\$	350,000	\$ 2,888,097
Purchases		-	218,000
Sales		-	-
Net transfers in (out)		-	-
Realized gains (losses)		-	(48,391)
Change in unrealized appreciation (depreciation) on investments		-	649,037
Balance as at December 31, 2019	\$	350,000	\$ 3,706,743
Net change in unrealized appreciation from investments as at December 31, 2019	\$	-	\$ 601,746

The Fund Manager of the Fund is responsible for performing the valuation of the fair value measurements included in the financial statements, including the Level 3 fair values. As at December 31, 2020 and December 31, 2019, the fair values of Level 3 securities held by the Fund comprised the following securities and the unobservable inputs used in the fair value measurement of these investments were as follows:

### December 31, 2020

Investment Name	Fair Value (\$)	Valuation Technique	Unobservable inputs
Sustainable Produce Urban Delivery Inc.	62,824	Discounted Cash Flow	N/A
Grey Wolf Animal Health Inc.	350,000	Discounted Cash Flow	N/A
Investx Series 19-08	318,500	Recent Transactions	N/A
Arthritis Innovation Corp.	250,000	Recent Transactions	N/A
Cairn Memory Care Opportunities Fund LP	468,000	Recent Transactions	N/A
Grey Wolf Animal Health Inc.	1,010,420	Recent Transactions	N/A
<b>Total</b>	<b>2,459,744</b>		

# Healthcare Special Opportunities Fund

## Notes to Financial Statements

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December 31, 2019

Investment Name	Fair Value (\$)	Valuation Technique	Unobservable inputs
Centres for Pain Management	150,000	Discounted Cash Flow	N/A
Grey Wolf Animal Health Inc.	200,000	Discounted Cash Flow	N/A
Arthritis Innovation Corp.	250,000	Recent Transactions	N/A
Cairn Memory Care Opportunities Fund LP	468,000	Recent Transactions	N/A
Grey Wolf Animal Health Inc.	1,178,823	Recent Transactions	N/A
TRC Management Holdings Corp.	1,459,920	Recent Transactions	N/A
Total	3,706,743		

There is no significant sensitivity impact related to the fair value of Level 3 securities.

### 11. CAPITAL MANAGEMENT

The Fund's investment objective is principally set up to provide unitholders with long-term total return by investing in equity and debt securities of issuers that derive a significant portion of their revenue or earnings from medical and healthcare products and/or services.

The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders, maximize unitholder value and maintain financial strength. The capital of the Fund is divided into two classes, Class A and Class U. The units issued and outstanding represent the capital of the Fund, and shareholders are entitled to distributions when declared.

The Fund manages its capital in accordance with the investment objectives and strategies and the risk management practices outlined in Note 9, Financial Risk Management. The Manager actively monitors the cash position and financial performance to ensure sufficient liquidity to meet operating expenses, distributions, and redemptions.