



**Healthcare Special Opportunities Fund**

Financial Statements

June 30, 2019

# Healthcare Special Opportunities Fund

## Statements of Financial Position (unaudited)

As at June 30, 2019 and December 31, 2018

	2019	2018
<b>Assets</b>		
<b>Current assets</b>		
Financial assets at fair value through profit or loss (note 3)	\$ 33,436,896	\$ 33,698,283
Cash	3,717,142	2,356,256
Accrued dividends	34,809	80,305
Accrued interest	756	592
Receivable for investments sold	396,063	-
Other receivable	6,000	-
<b>Total assets</b>	<b>37,591,666</b>	<b>36,135,436</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Performance fees	225,460	224,319
Accrued expenses	26,292	105,493
Distributions payable to unitholders	-	199,450
Management fees payable	28,667	33,502
<b>Total liabilities (excluding Net Assets attributable to holders of redeemable units)</b>	<b>280,419</b>	<b>562,764</b>
<b>Net Assets attributable to holders of redeemable units (note 4)</b>	<b>\$ 37,311,247</b>	<b>\$ 35,572,672</b>
<b>Net Assets attributable to holders of redeemable units per class</b>		
Class A	\$ 36,551,243	\$ 34,671,576
Class U	\$ 760,004	\$ 901,096
<b>Net Assets attributable to holders of redeemable units per class per unit (note 4)</b>		
Class A	\$ 12.21	\$ 11.62
Class U	\$ 15.80	\$ 14.80

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 (unaudited)

For the six-month periods ended June 30,

	2019	2018
<b>Net gain (loss) on financial instruments</b>		
Dividend income	\$ 188,271	\$ 234,301
Interest for distribution purposes	45,600	38,422
Foreign exchange gain (loss)	34,150	(107,814)
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	1,261,615	3,805,583
Change in unrealized appreciation (depreciation) in value of investments	1,002,853	3,715,700
Change in unrealized appreciation (depreciation) in value of foreign exchange from currency	(142,696)	89,855
<b>Net gain (loss) on financial instruments</b>	<b>2,389,793</b>	<b>7,776,047</b>
<b>Expenses (note 5)</b>		
Management fees	252,074	320,032
Transaction costs (note 7)	44,772	53,116
Performance fees	19,679	451,509
Securityholder reporting costs	15,152	20,964
Valuation fees	14,977	15,310
Audit fees	10,382	10,326
Legal fees	6,911	5,515
Filing fees	6,134	7,931
Custodian fees	3,998	4,092
Independent review committee fees	1,599	1,494
Other expenses (recoveries)	(24,967)	16,247
<b>Total operating expenses</b>	<b>350,711</b>	<b>906,536</b>
<b>Operating profit (loss)</b>	<b>2,039,082</b>	<b>6,869,511</b>
Withholding taxes (note 6)	(58,809)	(23,283)
<b>Increase (decrease) in Net Assets attributable to holders of redeemable units from operations (excluding distributions)</b>	<b>\$ 1,980,273</b>	<b>\$ 6,846,228</b>
<b>Increase (decrease) in Net Assets attributable to holders of redeemable units per class from operations (excluding distributions)</b>		
Class A	\$ 1,932,328	\$ 6,713,016
Class U	\$ 47,945	\$ 133,212
<b>Average number of units outstanding for the period per class</b>		
Class A	2,988,438	3,983,192
Class U	53,182	61,043
<b>Increase (decrease) in Net Assets attributable to holders of redeemable units per unit from operations (excluding distributions)</b>		
Class A	\$ 0.65	\$ 1.69
Class U	\$ 0.90	\$ 2.18

The accompanying notes are an integral part of these financial statements



## Healthcare Special Opportunities Fund

### Statements of Cash Flows (unaudited)

For the six-month periods ended June 30,

	2019	2018
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in Net Assets attributable to holders of redeemable units from operations (excluding distributions)	\$ 1,980,273	\$ 6,846,228
Adjustments for:		
Foreign exchange (gain) loss	(34,150)	107,814
Net realized (gain) loss on sale of investments	(1,261,615)	(3,805,583)
Change in unrealized (appreciation) depreciation in value of investments	(1,002,853)	(3,715,700)
Purchases of investments	(13,610,650)	(17,999,172)
Proceeds from sale of investments	15,740,442	22,970,404
Accrued dividends	45,496	12,469
Accrued interest	(164)	(24,559)
Other receivable	(6,000)	-
Accrued expenses	(79,201)	(21,762)
Performance fees	1,141	451,509
Management fees payable	(4,835)	2,985
<b>Net cash from (used in) operating activities</b>	<b>1,767,884</b>	<b>4,824,633</b>
<b>Cash flows from (used in) financing activities</b>		
Distributions paid to holders of redeemable units, net of reinvested distributions	(376,905)	(217,427)
Normal course issuer bid Class U units repurchased and cancelled	(64,243)	-
Normal course issuer bid Class A units repurchased and cancelled	-	(4,286)
<b>Net cash from (used in) financing activities</b>	<b>(441,148)</b>	<b>(221,713)</b>
Foreign exchange gain (loss)	34,150	(107,814)
Net increase (decrease) in cash	1,326,736	4,602,920
Cash at beginning of period	2,356,256	3,370,123
<b>Cash at end of period</b>	<b>\$ 3,717,142</b>	<b>\$ 7,865,229</b>
<b>Supplemental Cash Flow Information:</b>		
Dividends received, net of withholding taxes	\$ 174,958	\$ 223,487
Interest received	45,436	13,863

The accompanying notes are an integral part of these financial statements

# Healthcare Special Opportunities Fund

## Schedule of Investment Portfolio

As at June 30, 2019 (unaudited)

Par Value/ Number of Shares	Description	Maturity Date /Expiry Date	Coupon Rate	Average Cost (\$)	Fair Value (\$)	% of Net Assets
<b>Bonds - Canada</b>						
<b>Corporate Bonds</b>						
150,000	2576560 Ontario Inc.	December 13, 2019	8.000%	150,000	150,000	
200,000	Grey Wolf Animal Health	December 20, 2023	6.000%	200,000	200,000	
	<b>Total Bonds</b>			<b>350,000</b>	<b>350,000</b>	<b>0.9</b>
<b>Equities - Canada</b>						
<b>Consumer Discretionary</b>						
93,700	Park Lawn Corp.			2,231,498	2,695,749	7.2
<b>Health Care</b>						
350,000	2576560 Ontario Inc.			350,000	350,000	
758,215	Akumin Inc.			2,097,814	3,636,214	
250	Aleafia Health Inc.			250,000	250,000	
75,075	Arthritis Innovation Corp.			250,000	250,000	
1,000,000	Avricore Health Inc.			150,000	65,000	
250	Cairn Memory Care Opportunities Fund LP			250,000	250,000	
91,000	DionyMed Brands Inc.			250,250	109,200	
192,300	Grey Wolf Animal Health Inc.			249,990	249,990	
481,313	Grey Wolf Animal Health Inc.			425,000	625,707	
119,000	Knight Therapeutics Inc.			973,765	918,680	
78,000	MedMen Enterprises Inc.			243,212	265,980	
60,000	OrganiGram Holdings Inc.			516,516	505,800	
300,000	Profound Medical Corp.			268,470	237,000	
76,200	TRC Management Holdings Corp.			400,050	400,050	
145,000	TRC Management Holdings Corp.			507,500	761,250	
808,500	Vitalhub Corp.			141,141	131,382	
10,000	Zyneworks Inc.			257,492	287,484	
				<b>7,581,200</b>	<b>9,293,737</b>	<b>25.0</b>
<b>Industrials</b>						
106,300	Morneau Shepell Inc.			2,598,177	3,143,291	
30,000	People Corp.			240,035	243,000	
				<b>2,838,212</b>	<b>3,386,291</b>	<b>9.0</b>
<b>Financials</b>						
125,000	Canopy Rivers Inc.			502,500	398,750	1.1
<b>Real Estate</b>						
86,500	NorthWest Healthcare Properties Real Estate Investment Trust			983,348	1,018,970	2.7
<b>Equities - United States</b>						
<b>Health Care</b>						
6,615	Becton Dickinson and Co.			1,735,351	2,178,405	
48,500	Boston Scientific Corp.			2,341,049	2,723,950	
17,200	Medtronic PLC			2,134,851	2,188,940	
28,900	Merck & Co., Inc.			2,397,985	3,166,590	
201,950	R1 RCM Inc.			1,026,135	3,319,827	

# Healthcare Special Opportunities Fund

## Schedule of Investment Portfolio

As at June 30, 2019 (unaudited)

Number of Shares	Description	Average Cost (\$)	Fair Value (\$)	% of Net Assets
<b>Equities - United States (continued)</b>				
<b>Health Care</b>				
6,560	UnitedHealth Group Inc.	1,527,989	2,091,716	
		<u>11,163,360</u>	<u>15,669,428</u>	<u>42.0</u>
<b>Industrials</b>				
10,000	Stericycle Inc.	678,364	623,971	1.7
		<u>25,978,482</u>	<u>33,086,896</u>	<u>88.7</u>
	<b>Total Equities</b>			
	<b>Transaction costs</b>	(30,928)		
	<b>Total Investments</b>	<u>26,297,554</u>	<u>33,436,896</u>	<u>89.6</u>
	<b>Other Assets, Less Liabilities</b>		<u>3,874,351</u>	<u>10.4</u>
	<b>Net Assets Attributable to Holders of Redeemable Units</b>		<u>\$ 37,311,247</u>	<u>100.0</u>

# Healthcare Special Opportunities Fund

## Notes to Financial Statements (unaudited)

June 30, 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 August 13, 2019.

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”) including International Accounting Standards (“IAS”) 34, Interim Financial Reporting, 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 August 13, 2019, 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) 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.

The Fund’s financial assets and financial liabilities previously classified as FVTPL under IAS 39, Financial Instruments – Recognition and Measurement (“IAS 39”) continue to be classified in the same category and there were no changes in the measurement attributes.



# Healthcare Special Opportunities Fund

## Notes to Financial Statements (unaudited)

June 30, 2019

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### (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.

### (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.

# Healthcare Special Opportunities Fund

## Notes to Financial Statements (unaudited)

June 30, 2019

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**(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.

**(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.

# Healthcare Special Opportunities Fund

## Notes to Financial Statements (unaudited)

June 30, 2019

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### (l) Accounting standards issued but not yet adopted

#### IAS 12, Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events. The amendment is effective on or after January 1, 2019. The Fund's current practice is in line with these amendments; they had no impact on the financial statements of the Fund.

### 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 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 period ended June 30, 2019, nil Class A units were purchased for cancellation under the above NCIB (2018 – 11,500).

**Healthcare Special Opportunities Fund**  
**Notes to Financial Statements (unaudited)**  
**June 30, 2019**

**Issued**

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

	2019	
	Number of Class A Units	Number of Class U Units
Units outstanding at January 1, 2019	2,984,572	60,900
Normal course issuer bid Class U units repurchased and cancelled	-	(5,000)
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
<b>Units outstanding at June 30, 2019</b>	<b>2,994,633</b>	<b>48,100</b>

  

	2018	
	Number of Class A Units	Number of Class U Units
Units outstanding at January 1, 2018	3,982,457	61,900
Normal course issuer bid Class A units repurchased and cancelled	(400)	-
Class U redeemable units converted to Class A redeemable units	1,296	(1,000)
<b>Units outstanding at June 30, 2018</b>	<b>3,983,353</b>	<b>60,900</b>

On June 30, 2019, the Fund's closing market price was \$11.79 per Class A unit (December 31, 2018 – \$10.85 per Class A unit).

**5. RELATED PARTY TRANSACTIONS**

As at June 30, 2019, the Manager of the Fund and certain Directors and Officers of the Manager held a total of 294,328 (2018 – 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 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.

# Healthcare Special Opportunities Fund

## Notes to Financial Statements (unaudited)

June 30, 2019

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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, 2018 of \$3,791,678 (2017 – \$7,119,695), which may be applied against future years’ capital gains and can be carried forward indefinitely. As of December 31, 2018, there was nil (2017 – \$525,015) in non-capital losses available in the Fund, which can be carried forward until 2036.

### 7. TRANSACTION COSTS

Commissions and other transaction fees paid for portfolio transactions for the period ended June 30, 2019 were \$44,772 (2018 – \$53,116).

### 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 periods ended June 30, 2019 and 2018 was \$17,865 and \$12,873, 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.

# Healthcare Special Opportunities Fund

## Notes to Financial Statements (unaudited)

June 30, 2019

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As at June 30, 2019 and December 31, 2018, the Fund had directly invested in debt instruments with the following Standard & Poor's credit ratings:

<u>Portfolio by rating category</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>
NR	0.9%	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.

### (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 currency risk, interest rate 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 June 30, 2019 and December 31, 2018, the Fund's direct exposure to debt instruments by maturity was as follows:

		<u>Less than</u>	<u>1 - 5 years</u>	<u>More than</u>	
		<u>1 year (\$)</u>	<u>(\$)</u>	<u>5 years (\$)</u>	<u>Total (\$)</u>
Interest rate exposure	<b>June 30, 2019</b>	150,000	200,000	-	<b>350,000</b>
	December 31, 2018	150,000	200,000	-	350,000

As at June 30, 2019, 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 \$2,139 (December 31, 2018 - \$2,505). In practice, the actual trading results may differ, and the difference could be material.

# Healthcare Special Opportunities Fund

## Notes to Financial Statements (unaudited)

### June 30, 2019

#### (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.

	June 30, 2019		December 31, 2018	
	Currency Exposure (\$)	Percentage of Net Assets (%)	Currency Exposure (\$)	Percentage of Net Assets (%)
U.S. dollar	24,259,796	65.0	28,768,827	80.9

As at June 30, 2019, 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 \$1,212,990 (December 31, 2018 – \$1,438,441). 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 June 30, 2019, approximately 88.7% (December 31, 2018 – 93.7%) of the Fund's Net Assets were held directly in equities. If equity prices on the exchanges increased or decreased by 5% as at June 30, 2019, the Net Assets of the Fund would have increased or decreased by approximately \$1,654,345, or 4.4% (December 31, 2018 – \$1,667,414, or 4.7%) with all other factors remaining constant. In practice, the actual results may differ and the difference could be material.

#### (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:

Investment Sector	June 30, 2019	December 31, 2018
Corporate Bonds	0.9%	1.0%
Consumer Discretionary	7.2%	2.9%
Financials	1.1%	-
Health Care	67.0%	86.1%
Industrials	10.7%	4.1%
Information Technology	-	0.6%
Real Estate	2.7%	-
Net Other Assets/Liabilities	10.4%	5.3%
Total	100.0%	100.0%

## 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 June 30, 2019 and December 31, 2018:

# Healthcare Special Opportunities Fund

## Notes to Financial Statements (unaudited)

### June 30, 2019

Financial Assets at Fair Value as at June 30, 2019				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Equities	30,199,899	-	2,886,997	33,086,896
Bonds	-	-	350,000	350,000
	30,199,899	-	3,236,997	33,436,896

Financial Assets at Fair Value as at December 31, 2018				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Equities	30,460,186	-	2,886,997	33,347,183
Warrants	-	-	1,100	1,100
Bonds	-	-	350,000	350,000
	30,460,186	-	3,238,097	33,698,283

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, 2018	\$ 350,000	\$ 2,888,097
Purchases	-	-
Sales	-	-
Net transfers in (out)	-	-
Realized gains (losses)	-	(48,391)
Change in unrealized appreciation (depreciation) on investments	-	47,291
Balance as at June 30, 2019	\$ 350,000	\$ 2,886,997
Net change in unrealized appreciation from investments as at June 30, 2019	\$ -	\$ 47,291

	Bonds	Equities
Balance as at December 31, 2017	\$ 150,000	\$ 1,660,500
Purchases	200,000	1,500,040
Sales	-	(398,000)
Net transfers in (out)	-	6,600
Realized gains (losses)	-	-
Change in unrealized appreciation (depreciation) on investments	-	118,957
Balance as at December 31, 2018	\$ 350,000	\$ 2,888,097
Net change in unrealized appreciation from investments as at December 31, 2018	\$ -	\$ 118,957

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 June 30, 2019 and December 31, 2018, 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:



# Healthcare Special Opportunities Fund

## Notes to Financial Statements (unaudited)

### June 30, 2019

#### June 30, 2019

Investment Name	Fair Value (\$)	Valuation Technique	Unobservable inputs
2576560 Ontario Inc.	350,000	Amortized Cost	N/A
Arthritis Innovation Corp.	250,000	Recent Transactions	N/A
Cairn Memory Care Opportunities Fund LP	250,000	Recent Transactions	N/A
GreenSpace Brands Inc., Warrants	-	Recent Transactions	N/A
Grey Wolf Animal Health Inc.	875,697	Recent Transactions	N/A
TRC Management Holdings Corp.	1,161,300	Recent Transactions	N/A
<b>Total</b>	<b>2,886,997</b>		

#### December 31, 2018

Investment Name	Fair Value (\$)	Valuation Technique	Unobservable inputs
2576560 Ontario Inc.	500,000	Amortized Cost	N/A
Arthritis Innovation Corp.	250,000	Recent Transactions	N/A
Cairn Memory Care Opportunities Fund LP	250,000	Recent Transactions	N/A
GreenSpace Brands Inc., Warrants	1,100	Recent Transactions	N/A
Grey Wolf Animal Health Inc.	1,075,697	Recent Transactions	N/A
TRC Management Holdings Corp.	1,161,300	Recent Transactions	N/A
<b>Total</b>	<b>3,238,097</b>		

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.