

# **Healthcare Special Opportunities Fund**

**Interim Financial statements  
June 30, 2022**

## Healthcare Special Opportunities Fund

### Statement of financial position

As at June 30, 2022 (unaudited) and December 31, 2021

	2022	2021
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Financial assets at fair value through profit or loss <i>[note 3]</i>	24,159,778	32,875,554
Cash	6,994,672	3,332,923
Accrued dividends	24,520	32,891
Accrued interest	22,473	22,492
Other receivable	3,500	—
<b>Total assets</b>	<b>31,204,943</b>	<b>36,263,860</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accrued expenses	—	35,663
Management fees payable	29,501	38,094
<b>Total liabilities [excluding net assets attributable to holders of redeemable units]</b>	<b>29,501</b>	<b>73,757</b>
<b>Net assets attributable to holders of redeemable units <i>[note 4]</i></b>	<b>31,175,442</b>	<b>36,190,103</b>
<b>Net assets attributable to holders of redeemable units per class</b>		
Class A	31,166,184	36,179,354
Class U	9,258	10,749
<b>Net assets attributable to holders of redeemable units per class per unit <i>[note 4]</i></b>		
Class A	11.90	13.81
Class U	15.43	17.91

See accompanying notes

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

/s/ Michael B. Decter  
Michael B. Decter, Director

/s/ Ron Bailey  
Ron Bailey, Director

## Healthcare Special Opportunities Fund

### Statements of comprehensive income (unaudited)

For the six-month periods ended June 30,

	2022	2021
	\$	\$
<b>Net gain (loss) on financial instruments</b>		
Dividend income	165,002	183,329
Interest for distribution purposes	2,672	17,534
Foreign exchange gain (loss)	(15,711)	(32,615)
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	(490,036)	1,464,301
Change in unrealized appreciation (depreciation) in value of investments	(4,222,369)	(1,614,187)
Change in unrealized appreciation (depreciation) in value of foreign exchange from currency	88,847	5,088
<b>Net gain (loss) on financial instruments</b>	<b>(4,471,595)</b>	<b>23,450</b>
<b>Expenses [note 5]</b>		
Management fees	231,283	247,143
Transaction costs [note 7]	32,951	28,974
Securityholder reporting costs	25,756	19,064
Valuation fees	16,293	19,711
Other expenses	12,692	12,664
Audit fees	11,137	9,109
Legal fees	7,110	7,163
Filing fees	6,826	6,336
Custodian fees	4,102	4,132
Independent review committee fees	1,902	1,653
Performance fees (recoveries)	—	(11,049)
<b>Total expenses</b>	<b>350,052</b>	<b>344,900</b>
<b>Increase in net assets attributable to holders of redeemable units before tax</b>	<b>(4,821,647)</b>	<b>(321,450)</b>
Withholding taxes [note 6]	(12,058)	(18,903)
<b>Increase (decrease) in net assets attributable to holders of redeemable units [excluding distributions]</b>	<b>(4,833,705)</b>	<b>(340,353)</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per class from operations [excluding distributions]</b>		
Class A	(4,832,267)	(338,588)
Class U	(1,438)	(1,765)
<b>Average number of units outstanding for the period per class</b>		
Class A	2,619,502	2,636,112
Class U	600	2,644
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit from operations [excluding distributions]</b>		
Class A	(1.84)	(0.13)
Class U	(2.40)	(0.67)

See accompanying notes

**Healthcare Special Opportunities Fund**

**Statements of changes in net assets attributable to holders of redeemable units (unaudited)**

For the six-month periods ended June 30,

	Class A		Class U	
	2022	2021	2022	2021
	\$	\$	\$	\$
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>36,179,354</b>	<b>35,816,353</b>	<b>10,749</b>	<b>99,337</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations (excluding distributions)</b>	<b>(4,832,267)</b>	<b>(338,588)</b>	<b>(1,438)</b>	<b>(1,765)</b>
<b>Redeemable unit transactions</b>				
Class U redeemable units converted into Class A redeemable units	—	87,081	—	(87,081)
<b>Distributions to holders of redeemable units</b>				
From net investment income	(180,903)	(179,516)	(53)	(52)
<b>Net increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>(5,013,170)</b>	<b>(431,023)</b>	<b>(1,491)</b>	<b>(88,898)</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>31,166,184</b>	<b>35,385,330</b>	<b>9,258</b>	<b>10,439</b>
	<b>Total</b>			
	<b>2022</b>		<b>2021</b>	
	\$		\$	
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	<b>36,190,103</b>		<b>35,915,690</b>	
<b>Increase (decrease) in net assets attributable to holders of redeemable units from operations (excluding distributions)</b>	<b>(4,833,705)</b>		<b>(340,353)</b>	
<b>Redeemable unit transactions</b>				
Class U redeemable units converted into Class A redeemable units	—		—	
<b>Distributions to holders of redeemable units</b>				
From net investment income	<b>(180,956)</b>		<b>(179,568)</b>	
<b>Net increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>(5,014,661)</b>		<b>(519,921)</b>	
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>31,175,442</b>		<b>35,395,769</b>	

See accompanying notes

## Healthcare Special Opportunities Fund

### Statements of cash flows (unaudited)

For the six-month periods ended June 30,

	2022	2021
	\$	\$
<b>Operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units from operations (excluding distributions)	<b>(4,833,705)</b>	(340,353)
Adjustments for:		
Foreign exchange (gain) loss	15,711	32,615
Net realized (gain) loss on sale of investments	490,036	(1,464,301)
Change in unrealized (appreciation) depreciation in value of investments	4,222,369	1,614,187
Purchases of investments	<b>(8,911,133)</b>	(6,838,378)
Proceeds from sale of investments	<b>12,914,504</b>	8,452,535
Accrued dividends	8,371	2,889
Accrued interest	19	3,259
Accrued expenses	<b>(35,663)</b>	(36,917)
Performance fees	—	(14,454)
Management fees payable	<b>(8,593)</b>	(5,772)
<b>Net cash from (used in) operating activities</b>	<b>3,858,416</b>	1,405,310
<b>Financing activities</b>		
Distributions paid to holders of redeemable units, net of reinvested distributions	<b>(180,956)</b>	(179,568)
<b>Net cash from (used in) financing activities</b>	<b>(180,956)</b>	(179,568)
<b>Foreign exchange gain (loss)</b>	<b>(15,711)</b>	(32,615)
<b>Net increase (decrease) in cash</b>	<b>3,677,460</b>	1,225,742
Cash at beginning of period	<b>3,332,923</b>	544,832
<b>Cash at end of period</b>	<b>6,994,672</b>	1,737,959
<b>Supplemental cash flow information:</b>		
Dividends received, net of withholding taxes	161,315	167,315
Interest received	2,691	20,793

See accompanying notes

## Healthcare Special Opportunities Fund

### Schedule of investment portfolio (unaudited)

As at June 30, 2022

Number of securities of per value	Coupon rate/Yield %	Maturity/ expiry date	Average cost \$	Fair value \$	Percentage of net assets \$
<b>Bonds</b>					
<b>Canadian Corporate Bonds</b>					
230,000	6.000	20-Dec-23	223,400	248,400	
150,000	5.000	16-Jun-25	150,000	162,000	
			<u>373,400</u>	<u>410,400</u>	1.32
<b>Total Bonds</b>			<u>373,400</u>	<u>410,400</u>	<u>1.32</u>
<b>Canadian equities</b>					
<b>Consumer discretionary</b>					
72,130			1,884,481	2,455,305	
			<u>1,884,481</u>	<u>2,455,305</u>	7.88
<b>Financials</b>					
250,000			124,005	132,220	
			<u>124,005</u>	<u>132,220</u>	0.42
<b>Health care</b>					
76,856			304,899	926,115	
218			218,000	283,400	
250			250,000	325,000	
204			49,980	49,980	
192,300			249,990	311,526	
481,313			425,000	779,727	
31,250			25,000	50,625	
46,000		20-Dec-22	—	—	
425,000			706,383	680,000	
1,497,000			876,780	748,500	
90,000		19-May-23	16,200	—	
1,000,000			200,000	120,000	
500,000		29-Apr-24	—	1	
14,285			49,998	49,998	
			<u>3,372,230</u>	<u>4,324,872</u>	13.87

## Healthcare Special Opportunities Fund

### Schedule of investment portfolio (unaudited) (continued)

As at June 30, 2022

Number of securities of per value	Coupon rate/Yield %	Maturity/ expiry date	Average cost \$	Fair value \$	Percentage of net assets \$
<b>Information technology</b>					
9,882			68,186	1,631	
439,050			1,244,228	1,172,264	
			<u>1,312,414</u>	<u>1,173,895</u>	3.77
<b>Total Canadian equities</b>					
			<u>6,693,130</u>	<u>8,086,292</u>	<u>25.94</u>
<b>Foreign equities</b>					
<b>Health care</b>					
10,290			1,389,718	1,442,182	
6,000			395,600	511,365	
6,015			1,608,471	1,912,848	
32,710			1,735,042	1,572,588	
1,580			536,610	409,073	
8,550			1,212,210	1,048,760	
1,203			40,051	39,292	
3,200			879,763	693,728	
15,200			1,241,052	1,787,601	
23,395			1,231,636	1,582,260	
23,600			449,577	451,484	
62,095			914,967	1,678,893	
6,295			1,893,003	1,615,366	
1,385			482,196	917,646	
			<u>14,009,896</u>	<u>15,663,086</u>	50.24
<b>Total foreign equities</b>					
			<u>14,009,896</u>	<u>15,663,086</u>	50.24
<b>Total equities</b>					
			<u>20,703,026</u>	<u>23,749,378</u>	76.18
<b>Transaction costs</b>					
			<u>(38,087)</u>		
<b>Total investments</b>					
			<u>21,038,339</u>	24,159,778	77.50
Other assets less liabilities					
				7,015,664	22.50
<b>Net assets attributable to holders of redeemable units</b>					
				<u>31,175,442</u>	<u>100.00</u>

## Healthcare Special Opportunities Fund

### Notes to financial statements (unaudited)

June 30, 2022

#### 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., 10, Alcorn Ave., Suite 205, Toronto, Ontario. These financial statements were authorized for issue by the Manager on August 15, 2022.

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 issued and outstanding as of August 15, 2022, 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.

The financial statements of the Fund have been prepared on a going concern basis using the historical cost basis. The Fund's functional currency and presentation currency is the Canadian dollar.

#### 3. Summary of significant accounting policies

##### [a] IFRS 9, Financial Instruments

The Fund classifies its financial instruments 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.

## Healthcare Special Opportunities Fund

### Notes to financial statements (unaudited)

June 30, 2022

#### **[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 "Foreign exchange gain (loss)" in the Statements of Comprehensive Income (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 as at the Statements 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**

The Fund 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 period-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.

## Healthcare Special Opportunities Fund

### Notes to financial statements (unaudited)

June 30, 2022

#### **[e] Cash**

Cash consists of cash held on deposit with financial institutions with maturity dates of less than 30 days.

#### **[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 (Loss).

#### **[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 (Loss) 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 (Loss) 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 period 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.

## Healthcare Special Opportunities Fund

### Notes to financial statements (unaudited)

June 30, 2022

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

In classifying and measuring financial instruments held by the Funds, the Manager has assessed the Funds' business model for managing their respective portfolios of investments and evaluating the performance on a fair value basis and concluded that these financial assets and liabilities should be measured at FVTPL in accordance with IFRS 9.

- Investment Entity

In determining whether a Fund meets the definition of an investment entity, the Manager may be required to make significant judgments about whether a Fund has the typical characteristics of an investment entity. The Fund may hold only one investment, an underlying fund (or have only one investor or have investors that are its related parties); however, consistent with the investment entity definition, the Fund primarily obtains funds from one or more investors for the purpose of providing investment management services, commits to its investors that the business purpose is to invest the funds solely for returns from capital appreciation, investment income or both, and measures and evaluates the performance of its investments on a fair value basis.

#### [l] Provisions

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

#### [m] Financial assets derecognition

A financial asset [or, where applicable, a part of a financial asset or part of Fund of similar financial assets] is primarily derecognized [i.e., removed from Fund's statements of financial position] when:

- The rights to receive cash flows from the asset have expired; or
- Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either [a] Fund has transferred substantially all the risks and rewards of the asset; or [b] Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, Fund continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Fund has retained.

## Healthcare Special Opportunities Fund

### Notes to financial statements (unaudited)

June 30, 2022

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Financial assets are written off either partially or in their entirety only when the Corporation has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to provisions for losses.

#### 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.

## Healthcare Special Opportunities Fund

### Notes to financial statements (unaudited)

June 30, 2022

During the six-month periods ended June 30, 2022 and 2021, Class A units were not purchased for cancellation under the above NCIB.

#### Issued

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

	June 30, 2022	
	Number of Class A Units	Number of Class U Units
Units outstanding at beginning of period	2,619,502	600
Class U redeemable units converted to Class A redeemable units	—	—
Redemption of redeemable units	—	—
Units outstanding at end of period	2,619,502	600

	June 30, 2021	
	Number of Class A Units	Number of Class U Units
Units outstanding at beginning of period	2,632,259	5,600
Class U redeemable units converted to Class A redeemable units	6,518	(5,000)
Redemption of redeemable units	—	—
Units outstanding at end of period	2,638,777	600

On June 30, 2022, the Fund's closing market price was \$11.50 per Class A unit [December 31, 2021 – \$12.92 per Class A unit].

#### 5. Related party transactions

As at June 30, 2022, the Manager of the Fund and certain Directors and Officers of the Manager held a total of 307,518 [December 31, 2021 – 307,518] 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.

## Healthcare Special Opportunities Fund

### Notes to financial statements (unaudited)

June 30, 2022

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 (Loss).

Accumulated capital loss carryforwards may be applied against future years' capital gains and can be carried forward indefinitely. The Fund did not have accumulated capital loss carryforwards as at December 31, 2021 and 2020. The Fund has accumulated non-capital loss carryforwards as at December 31, 2021 of \$10,493 [2020 – nil]. The non-capital losses expire in 20 years.

#### 7. Transactions costs

Commissions and other transaction fees paid for portfolio transactions for the six-month period ended June 30, 2022 were \$32,951 [2021 – \$28,974].

#### 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 six-month period ended June 30, 2022 and 2021 was \$26,732 and \$7,990, respectively.

## Healthcare Special Opportunities Fund

### Notes to financial statements (unaudited)

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#### 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 June 30, 2022 and December 31, 2021, 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	
	June 30, 2022 %	December 31, 2021 %
Not rated	1.3	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

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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 June 30, 2022 and December 31, 2021, the Fund's direct exposure to debt instruments by maturity was as follows:

Interest rate exposure	Less than 1 year \$	1-5 years \$	More than 5 years \$	Total \$
June 30, 2022	—	410,400	—	410,400
December 31, 2021	—	378,000	—	378,000

As at June 30, 2022, 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 period would amount to approximately \$1,886 [December 31, 2021 – \$2,296]. 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.

	June 30, 2022		December 31, 2021	
	Currency exposure \$	Percentage of net assets %	Currency exposure \$	Percentage of net assets %
U.S. dollar	21,359,756	68.5	24,859,853	68.7

As at June 30, 2022, 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 \$1,067,988 [December 31, 2021 – \$1,242,993]. 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

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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, 2022, approximately 76.2% [December 31, 2021 – 89.8%] 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, 2022, the Net Assets of the Fund would have increased or decreased by approximately \$1,187,469, or 3.8% [December 31, 2021 – \$1,624,878, or 4.5%] 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:

<b>Investment sector</b>	<b>June 30, 2022</b>	<b>December 31, 2021</b>
	%	%
Corporate bonds	1.3	1.0
Consumer discretionary	7.9	7.7
Consumer staples	—	2.9
Financials	0.4	0.3
Health care	64.1	69.7
Industrial	—	3.2
Information technology	3.8	2.2
Real estate	—	3.8
Net other assets/liabilities	22.5	9.2
Total	<b>100.0</b>	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, 2022 and December 31, 2021:

	<b>June 30, 2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	\$	\$	\$	\$
Equities	20,387,672	—	3,361,706	23,749,378
Bonds	—	—	410,400	410,400
	<b>20,387,672</b>	<b>—</b>	<b>3,772,106</b>	<b>24,159,778</b>

## Healthcare Special Opportunities Fund

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	December 31, 2021			Total \$
	Level 1 \$	Level 2 \$	Level 3 \$	
Equities	29,197,532	2,700	3,297,322	32,497,554
Bonds	—	—	378,000	378,000
	29,197,532	2,700	3,675,322	32,875,554

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, 2021	378,000	3,297,322
Purchases	23,400	25,000
Sales	—	—
Net transfers in (out)	—	1,630
Realized gains (losses)	—	—
Change in unrealized appreciation (depreciation) on investments	9,000	37,754
Balance as at June 30, 2022	410,400	3,361,706
<b>Net change in unrealized appreciation from investments as at June 30, 2022</b>	<b>9,000</b>	<b>37,754</b>
	Bonds \$	Equities \$
Balance as at December 31, 2020	412,824	2,046,920
Purchases	—	738,515
Sales	(68,188)	(25,350)
Net transfers in (out)	5,188	15,293
Change in unrealized appreciation (depreciation) on investments	28,176	521,944
Balance as at December 31, 2021	378,000	3,297,322
<b>Net change in unrealized appreciation from investments as at December 31, 2021</b>	<b>28,000</b>	<b>521,944</b>

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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, 2022 and December 31, 2021, 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:

Investment name	June 30, 2022		
	Fair value \$	Valuation technique	Unobservable inputs
Arthritis Innovation Corp.	926,115	Discounted cash flow	N/A
Cairn Memory Care Opportunities Fund LP	608,400	Discounted cash flow	N/A
Grey Wolf Animal Health Inc.	1,552,278	Discounted cash flow	N/A
Fero International Inc.	49,980	Recent transactions	N/A
Freshlocal Solutions Inc.	1,631	Recent transactions	N/A
Investx Series 19-08	132,220	Recent transactions	N/A
Paume Inc.	49,998	Recent transactions	N/A
Proxamama, Inc.	451,484	Recent transactions	N/A
Total	3,772,106		

  

Investment name	December 31, 2021		
	Fair value \$	Valuation technique	Unobservable inputs
Arthritis Innovation Corp.	926,115	Discounted cash flow	N/A
Cairn Memory Care Opportunities Fund LP	608,400	Discounted cash flow	N/A
Grey Wolf Animal Health Inc.	1,469,253	Discounted cash flow	N/A
Fero International Inc.	49,980	Recent transactions	N/A
Investx Series 19-08	129,473	Recent transactions	N/A
Paume Inc.	49,998	Recent transactions	N/A
Proxamama, Inc.	442,103	Recent transactions	N/A
Total	3,675,322		

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.

## Healthcare Special Opportunities Fund

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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.