Davis-Rea Enhanced Income Fund

Unaudited Financial Statements

For the Periods ended June 30, 2016 and 2015

(Expressed in Canadian dollars)

NOTICE TO READER:

These interim financial statements and related notes for the six-month period ended June 30, 2016 have been prepared by the management of the Fund. The external auditors of the Fund have not audited or reviewed these interim financial statements.

DAVIS-REA ENHANCED INCOME FUND
Unaudited Statements of Financial Position
As at June 30, 2016 and December 31, 2015
(Expressed in Canadian Dollars)

		June 30, 2016		December 31, 2015
Assets				
Investments at fair value	**$**	**44,907,134**	$	56,817,400
Cash		**543,832**		1,283,348
Receivable for investments sold		**215,758**		-
Subscriptions receivable		**15,500**		-
Accrued interest receivable		**256,136**		391,669
Accrued dividends receivable		**10,158**		20,100
Total assets		**45,948,518**		58,512,517
Liabilities				
Short positions at fair value		**25,031,326**		36,944,586
Redemptions payable		**175,014**		294,325
Accrued management fees (Note 8)		**70,908**		81,189
Other accrued expenses		**61,386**		21,558
Accrued interest payable		**79,199**		110,764
Distributions payable to holders of redeemable units		**1,299**		8,337
Total liabilities		**25,419,132**		37,460,759
Net assets attributable to holders of redeemable units (Note 5)	**$**	**20,529,386**	$	21,051,758
Net assets attributable to holders of redeemable units per class (Note 5)				
Class A	**$**	**20,529,386**	$	21,051,758
Net assets attributable to holders of redeemable units per unit				
Class A	**$**	**10.00**	$	9.36

DAVIS-REA ENHANCED INCOME FUND
Unaudited Statements of Comprehensive Income
For the six months period ended June 30, 2016 and the period from June 1, 2015 (Date of Commencement) to June 30, 2015)
(Expressed in Canadian Dollars)

		2016		2015
Investment Income				
Interest for distribution purposes	**$**	**957,711**	$	55,310
Net Gain (Loss) on Investments				
Net realized gain (loss)		**143,499**		6,797
Net other gain (loss)		**20**		-
Change in unrealized appreciation (depreciation)		**1,164,008**		6,198
		1,307,527		12,995
		2,265,238		68,305
Expenses				
Management fees (Note 8)		**126,449**		25,416
Audit fees		**14,189**		1,823
Custodial and administrative fees (Note 8)		**1,811**		204
Legal fees		**2,434**		-
Trustee fees		**1,192**		204
Unitholder communication fees		**2,963**		561
Fund administration expense		**9,194**		1,799
Performance fees		**37,158**		-
Commissions and other portfolio transaction costs		**8,572**		-
Interest expense		**302**		-
Harmonized sales tax		**19,380**		3,651
Security lending expense		**62,384**		-
Interest expense, short positions		**285,163**		24,682
Dividend expense, short positions		**69,174**		-
		640,365		58,340
Expenses waived/absorbed by the manager		**-**		-
		607,201		607,201
Increase (decrease) in net assets attributable to holders of redeemable units	**$**	**1,624,873**	$	9,965
Increase (decrease) in net assets attributable to holders of redeemable units per class				
Class A	**$**	**1,624,873**	$	9,965
Average redeemable units outstanding				
CLASS A	**$**	**2,113,173**	$	2,473,841
Increase (decrease) in net assets attributable to holders of redeemable units per unit				
Class A	**$**	**0.770**	$	0.0003

DAVIS-REA ENHANCED INCOME FUND
Unaudited Statement of changes in net assets attributable to holders of redeemable units
For the six months period ended June 30, 2016 and the period from June 1, 2015 (Date of Commencement) to June 30, 2015)
(Expressed in Canadian Dollars)

Total		2016		2015
Net assets attributable to holders of redeemable units at beginning of period	**$**	**21,051,758**	$	-
Increase (decrease) in net assets attributable to holders of redeemable units		**1,624,873**		9,965
Distributions paid or payable to holders of redeemable units				
From net investment income		**(363,096)**		-
From net realized capital gains		**-**		(738)
Total distributions to holders of redeemable units		**(363,096)**		(738)
Redeemable unit transactions				
Amount received from the issuance of units		**25,500**		24,738,410
Amount received from reinvestment of distributions		**356,970**		730
Amount paid on redemptions of units		**(2,166,619)**		(1,023,285)
Net increase (decrease) from redeemable unit transactions		**(1,784,149)**		23,715,855
Net increase (decrease) in net assets attributable to holders of redeemable units		**(522,372)**		23,725,082
Net assets attributable to holders of redeemable units at end of period	**$**	**20,529,386**	$	23,725,082

CLASS A		2016		2015
Net assets attributable to holders of redeemable units at beginning of period	**$**	**21,051,758**	$	-
Increase (Decrease) in Net Assets from Operations		**1,624,873**		9,965
Distributions Paid or Payable to Unitholders				
From net investment income		**(363,096)**		-
From net realized capital gains		**-**		(738)
Total distributions to holders of redeemable units		**(363,096)**		(738)
Changes Due to Unitholder Transactions				
Amount received from the issuance of units		**25,500**		24,738,410
Amount received from reinvestment of distributions		**356,970**		730
Amount paid on redemptions of units		**(2,166,619)**		(1,023,285)
Net increase (decrease) from redeemable unit transactions		**(1,784,149)**		23,715,855
Net increase (decrease) in net assets attributable to holders of redeemable units		**(522,372)**		23,725,082
Net assets attributable to holders of redeemable units at end of period	**$**	**20,529,386**	$	23,725,082

DAVIS-REA ENHANCED INCOME FUND
Unauditeds Statement of Cash Flows
For the six months period ended June 30, 2016 and the period from June 1, 2015 (Date of Commencement) to June 30, 2015)
(Expressed in Canadian Dollars)

		2016		2015
Cash flows from operating activities				
Increase (decrease) in net assets attributable to holder of redeemable units	**$**	**1,624,873**	$	9,965
Adjustments for:				
Net realized gain (loss) on sale of investments		**(143,499)**		(6,797)
Net change in unrealized appreciation (depreciation) of investments		**(1,164,008)**		(6,198)
Purchase of investments		**(150,118,249)**		(40,824,464)
Proceeds from the sale of investments		**151,207,004**		27,028,789
Interest receivable		**103,968**		(61,527)
Dividends receivable		**9,942**		-
Other liabilities		**29,547**		33,658
		1,549,578		(13,826,574)
Financing activities				
Amount received from the issuance of units		**10,000**		24,738,410
Amount paid on redemptions of units		**(2,285,930)**		-
Distributions paid to unitholders		**(13,164)**		-
		(2,289,094)		24,738,410
Increase (decrease) in cash during the period		**(739,516)**		10,911,836
Cash at beginning of period		**1,283,348**		-
Cash at end of period	**$**	**543,832**	$	10,911,836
Interest received	**$**	**1,061,679**	$	-
Interest expense, short positions		**285,163**		24,682
Dividends received, net of withholding taxes		**9,942**		-
Dividend expense, short positions		**69,174**		-

DAVIS-REA ENHANCED INCOME FUND
Statement of Investment Portfolio
As of June 30, 2016 (unaudited)
(Expressed in Canadian Dollars)

	Par Value	Average Cost* $	Fair Value $
INVESTMENTS - 96.81%			
INVESTMENTS HELD LONG - 218.74%			
Canadian Bonds - 197.06%			
Government of Canada and Guaranteed Bonds - 35.09%			
Government of Canada, 1.25%, 2018/03/01	50,000	50,565	50,610
Government of Canada, 0.75%, 2020/09/01	91,000	92,365	91,736
Government of Canada, 0.75%, 2021/03/01	44,000	44,251	44,365
Province of Alberta, 2.20%, 2026/06/01	2,000,000	1,994,480	2,020,405
Province of Ontario, 3.15%, 2022/06/02	1,500,000	1,612,140	1,650,328
Province of Ontario, 2.40%, 2026/06/02	2,000,000	2,024,900	2,079,043
Province of Ontario, 2.80%, 2048/06/02	1,250,000	1,242,400	1,267,977
		7,061,101	**7,204,464**
Corporate Bonds - 161.97%			
Air Canada, Callable, 7.62%, 2019/10/01	2,000,000	2,113,750	2,099,167
Alliance Grain Traders Inc., Restricted, 9.00%, 2018/02/14	1,000,000	1,075,000	1,035,417
Allied Properties REIT, Series 'B', Callable, 3.93%, 2022/11/14	600,000	600,000	611,228
AltaLink L.P., Series '2016-1', Callable, 2.75%, 2026/05/29	1,000,000	1,000,000	1,030,468
Artis REIT, Series 'A', 3.75%, 2019/03/27	2,000,000	2,051,680	1,999,820
Bank of Montreal, Variable Rate, Callable, 3.32%, 2026/06/01	2,000,000	2,016,520	2,024,282
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 3.00%, 2024/10/28	2,000,000	2,006,340	2,007,795
Crew Energy Inc., Restricted, Callable, 2014/02/21, 8.38%, 2020/10/21	1,085,000	1,106,700	1,035,723
DHX Media Ltd., Callable, 5.88%, 2021/12/02	1,250,000	1,230,000	1,240,625
Dollarama Inc., 3.10%, 2018/11/05	2,000,000	2,063,880	2,060,402
Emera Inc., 2.90%, 2023/06/16	1,000,000	1,000,000	1,013,235
Federated Co-Operatives Ltd., Restricted, Callable, 3.92%, 2025/06/17	1,500,000	1,500,000	1,524,821
First Capital Realty Inc., Series 'T', Callable, 3.60%, 2026/05/06	1,000,000	1,000,000	1,037,895
FortisBC Energy Inc., Callable, 2.58%, 2026/04/08	550,000	549,664	561,813
Kraft Canada Inc., Restricted, Callable, 2.70%, 2020/07/06	2,000,000	2,001,400	2,032,724
Kraft Canada Inc., Variable Rate, Restricted, 1.70%, 2018/07/06	1,000,000	1,000,000	1,002,658
Parkland Fuel Corp., Restricted, Callable, 5.50%, 2021/05/28	1,500,000	1,543,125	1,522,500
Sun Life Capital Trust II, Callable, 5.86%, 2108/12/31	1,500,000	1,686,315	1,651,725
Suncor Energy Inc., Callable, 5.39%, 2037/03/26	1,304,000	1,422,260	1,478,258
TD Capital Trust III, Variable Rate, Perpetual, 7.24%, 2018/12/31	2,000,000	2,351,280	2,242,632
Toronto Hydro Corp., Series '12', Callable, 2.52%, 2026/08/25	1,200,000	1,199,808	1,219,095
Toronto-Dominion Bank (The), Series 'CBL14', 1.68%, 2021/06/08	500,000	499,810	504,064
TransCanada PipeLines Ltd., Callable, 3.69%, 2023/07/19	700,000	743,673	758,302
Videotron Ltd., Callable, 6.88%, 2021/07/15	1,500,000	1,612,500	1,556,526
		33,373,705	**33,251,175**
Total Canadian Bonds		**40,434,806**	**40,455,639**
U.S. Bonds - 15.34%			
AT&T Inc., Series 'Maple', Restricted, 3.82%, 2020/11/25	2,000,000	2,128,880	2,136,851
Wells Fargo & Co., 2.98%, 2026/05/19	1,000,000	1,000,000	1,013,174
		3,128,880	**3,150,025**
Total Foreign Bonds		**3,128,880**	**3,150,025**
Total Bonds - 212.40%		**43,563,686**	**43,605,664**
Canadian Equities - 6.34%			
Automotive Properties REIT	130,017	1,141,341	1,301,470
		1,141,341	**1,301,470**
Total Canadian Equities		**1,141,341**	**1,301,470**
TOTAL INVESTMENTS HELD LONG		**44,705,027**	**44,907,134**

DAVIS-REA ENHANCED INCOME FUND
Statement of Investment Portfolio
As of June 30, 2016 (unaudited)
(Expressed in Canadian Dollars)

	Par Value	Average Cost* $	Fair Value $
INVESTMENTS SOLD SHORT - (121.93%)			
Canadian Bonds - (121.93%)			
Government of Canada and Guaranteed Bonds - (121.93%)			
Government of Canada, 1.25%, 2018/09/01	(2,027,000)	(2,067,453)	(2,059,538)
Government of Canada, 1.75%, 2019/03/01	(1,965,000)	(2,051,962)	(2,029,826)
Government of Canada, 1.75%, 2019/09/01	(3,605,000)	(3,741,794)	(3,741,352)
Government of Canada, 1.50%, 2020/03/01	(2,016,000)	(2,066,954)	(2,085,885)
Government of Canada, 3.50%, 2020/06/01	(4,182,000)	(4,654,764)	(4,658,482)
Government of Canada, 3.25%, 2021/06/01	(1,810,000)	(2,035,410)	(2,043,188)
Government of Canada, 2.75%, 2022/06/01	(568,000)	(630,386)	(636,004)
Government of Canada, 1.50%, 2023/06/01	(1,533,000)	(1,592,642)	(1,608,073)
Government of Canada, 2.25%, 2025/06/01	(3,934,000)	(4,220,085)	(4,371,805)
Government of Canada, 1.50%, 2026/06/01	(1,726,000)	(1,753,817)	(1,797,173)
		(24,815,267)	**(25,031,326)**
Total Canadian Bonds		**(24,815,267)**	**(25,031,326)**
TOTAL INVESTMENTS SOLD SHORT		**(24,815,267)**	**(25,031,326)**
Total Cost and Fair Value of Investments - 96.81%		**19,889,760**	**19,875,808**
Transaction Cost Included in Average Cost		**(90)**	
Total Investments - 96.81%		**19,889,670**	**19,875,808**
Other Assets, Net of Liabilities - 3.19%			**653,578**
Net Assets Attributable to Holders of Redeemable Units - 100.00%			**20,529,386**

*Cost includes transaction costs

Percentage shown relate to investments at fair value at Net Assets Attributable to Holders of Redeemable Units (Net Assets) as at June 30, 2016

1. ESTABLISHMENT OF TRUST

The Davis- Rea Enhanced Income Fund (the "Fund") is an open ended unincorporated unit trust that was established under the laws of the Province of Ontario by a declaration of trust dated May 31, 2015. CIBC Mellon Trust Company is the trustee (the "Trustee") and the custodian (the "Custodian") of the Fund. Davis-Rea Ltd. is the manager (the "Manager") of the Fund.

The financial statements of the Fund for the period ended June 30, 2016 were authorized for issue on August 15, 2016.

2. BASIS OF PRESENTATION

The financial statements are prepared on the historical cost basis except for certain assets, liabilities and financial instruments which are measured at their fair values, as explained in the relevant accounting policies. The policies applied in these financial statements are based on IFRS issued and outstanding as of August 15, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Financial instruments
The Fund recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

The Fund classifies its financial assets and financial liabilities at initial recognition into the following categories, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Financial assets and liabilities at fair value through profit or loss
The Fund classifies its investments as financial assets at fair value through profit and loss. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund, as set out in the Fund's offering memorandum.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within 'changes in unrealized appreciation(depreciation)' in the year in which they arise. Interest and dividends earned or paid on these instruments are recorded separately in interest revenue or expense and dividend revenue or expense.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are measured at amortized cost. Transaction costs are included in the initial carrying amount of the asset. The Fund includes in this category subscriptions receivable, accrued interest receivable, accrued dividends receivable and other assets.

Other financial liabilities
This category includes all financial liabilities, other than those classified at fair value through profit or loss. Financial liabilities classified as other financial liabilities are subsequently measured at amortized cost. Transaction costs are included in the initial carrying amount of the liability. The Fund includes in this category redemptions payable, accrued management fees, other accrued expenses and distributions payable to holders of redeemable units.

Financial assets are de-recognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership. The Fund de-recognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. On de-recognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognized in the Statement of Comprehensive Income.

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is ‘impaired’ if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of the amount due on terms that the Fund would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or adverse changes in the payment status of the borrowers.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. If an event occurring after the impairment was recognized, causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss to a maximum of the carrying amount of the asset had the impairment not been recognized.

Valuation of investments
Investments held that are traded in an active market through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers, are valued at their last traded market price where the last traded market price falls within the day’s bid-ask spread. In circumstances where the last traded price is not within that day’s bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on specific facts and circumstances. The Fund’s policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer. Investments held, such as bonds, with no active market or available bid prices are valued at their closing sale prices.

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include discounted cash flow analysis and option pricing models, which considers factors such as the market value of the underlying security, strike price, volatility and terms of the warrants or options.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The breakdown of the Fund into the three-level hierarchy is provided in Note 10.

Investment transactions and income recognition
The accrual method of recording income and expense is followed by the Fund, with investment transactions accounted for on the trade date basis and dividend income recorded on the ex-dividend date. Gains and losses on the sale of investments are determined using an average cost basis. Distributions from mutual and pooled funds are recognized on the ex-distribution date and are recorded as income, capital gains or return of capital, based on the best information available. Those treated as return of capital reduce the average costs of the underlying investment. Interest for distribution purposes, as disclosed in Statement of Comprehensive Income on debt securities at fair value through profit or loss is recognized on accrual basis and represents the coupon interest received accounted on an accrual basis.

Distributions
Each participant's share of income, net of the Fund's expenses and net capital gain is distributed quarterly. Distributions from income trusts, mutual funds and REITs are recognized on the ex-distribution date and are recorded as income, capital gains or a return of capital, based on best information available to the Manager. Distributions from investment trusts that are treated as a return of capital for income tax purposes reduce the average cost of the underlying investment.

Income taxes
The Fund qualifies as a unit trust under the Income Tax Act (Canada), and accordingly, is not subject to income tax on the portion of its income, including net realized capital gains, that is distributed to unit holders other than Alternative Minimum Tax. A unit trust may be subject to Alternative Minimum Tax in certain circumstances. All or substantially all of the income for income tax purposes of the fund is distributed to unit holders in each taxation year.

Foreign currency translation
The Fund’s subscriptions and redemptions are denominated in Canadian dollars (CAD), which is also its functional and presentation currency.

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. Foreign exchange gains and losses on the sale of investments are included in net foreign exchange gain (loss) on the Statement of Comprehensive Income.

Commissions and other transaction costs
Commissions and other transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of an investment, which include fees and commissions paid to agents, advisors, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Commissions and transaction costs are expensed in the Statement of Comprehensive Income.

Valuation of Fund units
The value at which units are issued or redeemed is the Net Asset Value per unit. Net asset value per unit for each class is calculated at the end of each day on which the Funds' Manager is open for business ("valuation day') by dividing the net asset value ("Transactional NAV") of each class by its outstanding units. The net asset value of each class is computed by calculating the value of the class' proportionate share of a fund's assets less the class' proportionate share of the fund's common liabilities and less class-specific liabilities. Expenses directly attributable to a class are charged to that class while common fund expenses are allocated to each class in a reasonable manner as determined by the Manager. Other income and realized and unrealized gains and losses are allocated to each class of a fund based on that class' prorata share of total net asset value of that fund. Amounts received on the issuance of units and amounts paid on the redemption of units are included on the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units.

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 Statement of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units for the period divided by the weighted average units outstanding during the period for each class.

Other Assets and Liabilities
Subscriptions receivable, accrued interest receivable, accrued dividends receivable and other assets are recorded at amortized cost. Similarly, redemptions payable, accrued management fees, other accrued expenses and distributions payable to holders of redeemable units are designated as other financial liabilities and are recorded at amortized cost. These balances are short term in nature, therefore, amortized cost approximates fair value for these assets and liabilities.

Cash
Cash is comprised of deposits with financial institutions. For the purpose of the Statement of Cash Flows, cash is net of outstanding bank overdrafts when applicable.

Redeemable participating shares/units
Redeemable units are redeemable at the unitholder's option and are classified as other financial liabilities and are recorded at present value of redeemable amount. Net asset value per unit of each series is calculated daily (unless such day is not a business day, in which case the last business day prior to such day is used) (each a "valuation day") by dividing the net asset value of each series by the outstanding units of that series. The net asset value of each series is computed by calculating the fair value of the assets less liabilities of the series.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to use judgement in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgements and estimates that the Fund has made in preparing the financial statements:

Fair value measurement of derivatives and securities not quoted in an active market
When the fund holds financial instruments that are not quoted in active markets, such as derivatives, the fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources. Broker quotes as obtained from the pricing sources may be indicative and not executable. Where 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. The models used to determine fair values are validated and periodically reviewed by the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

(Expressed in Canadian Dollars)

Models use observable data, to the extent practicable. However, areas such as credit risk, volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market

Classification and measurement of investments and application of the fair value option
In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments on the classification of these investments as either held for trading or designated as fair value through profit and loss under IAS 39, Financial Instruments. Due to the fact the investments have not been acquired or incurred principally for the purpose of selling or repurchasing in the near term and there is no evidence of a recent actual pattern of short term profit taking, the investments are designated as FVTPL and are not considered to be held for trading. Designation is made by being part of a group of financial assets which are managed and have their performance evaluated on a fair value basis.

5. REDEEMABLE UNITS

The capital of the Fund is represented by Class A issued redeemable units with no par value. Unitholders are entitled to distributions, if any, and to payment of a proportionate share of the net assets based on the Fund's net asset value per unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscription and redemption of units. Capital movements are disclosed in the Statements of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with the investment strategies and risk management policies outlined in Note 9, the Fund endeavours to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions. There were no other class shares outstanding as at June 30, 2016.

The following table summarizes the changes in the number of units for the period ended June 30 2016:

	Class A Number of units
Balance, beginning of period	2,249,490
Units issued	2,558
Units redeemed	(235,259)
Reinvestments	36,928
Balance, end of period	**2,053,717**

The following table summarizes the changes in the number of units for the year ended December 31, 2015:

	Class A Number of units
Balance, beginning of year	-
Units issued	2,498,601
Units redeemed	(298,382)
Reinvestments	49,271
Balance, end of year	**2,249,490**

6. DISTRIBUTIONS PER UNIT

Distributions may be made by the Fund of all or any part of its net income and net realized gains or as a return of capital to unitholders of record as of the close of business on or before the last valuation date in the year or at such other dates as determined by the Fund Manager, according to each unitholders' proportionate share of the Funds less any tax required to be deducted. The Manager intends to automatically reinvest such distributions of the Fund in additional units of the same class of the Fund on behalf of each unitholder.

The Fund had the following distributions:

		2016		2015
From net realized capital gain	**$**	**-**	$	738
From net investment income	**$**	**$363,096**	**$**	**-**

7. INCOME TAXES

The Fund qualifies as a unit trust under the Income Tax Act (Canada) and thus is not subject to income tax on its net taxable capital gains and its net investment income for the year if it allocates net capital gains and net investment income to unitholders. It is the intention of the Fund Manager to allocate the taxable income and realized gains of the Fund annually to unitholders so as to eliminate any income taxes otherwise payable by the Fund. Occasionally, the Funds may distribute more than it earns. This excess distribution is a return of capital and reduces the cost base of the units at the unitholder level.

The Fund may be subject to alternative minimum tax in a year in which it has a net investment loss for tax purposes as well as net realized capital gain. This alternative minimum tax can be carried forward indefinitely to be applied against future taxes otherwise payable.

Capital losses incurred by the Fund cannot be allocated to unit holders but may be carried forward indefinitely to reduce future realized capital gains. As at December 31, 2015, the Fund has $304,606 of capital loss carry forwards available.

8. MANAGEMENT FEES, OTHER EXPENSES, RELATED PARTY TRANSACTIONS AND ECONOMIC DEPENDANCE

In accordance with a management agreement, the Manager is responsible for providing investment management administrative services and facilities to the Fund, including general portfolio management, maintenance of accounting records and preparation of reports to unit holders.

The management fee, for Class A is computed at 1.25% respectively, per annum of the net asset value of the Fund plus applicable taxes, is accrued monthly and payable quarterly to the Manager. Class O unitholders pay management fees directly to the Manager and no management fees are charged to Class N unitholders as these units can only be purchased by another Davis Rea fund.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Other expenses include audit, administration, trustee, custodial, unitholder communication, and HST.

(Expressed in Canadian Dollars)

Custodian fees are fixed and payable to the Custodian, and are computed at a per annum rate of 0.07% on the first $10 million, 0.06% on the next $40 million, and 0.05% on the remaining average net asset value of the Fund. In addition, transaction fees are payable to the Custodian.

As at June 30, 2016, 17.44% (December 31, 2015 – 15.75%) of total net assets are held by one investor.

The Fund paid soft dollar amounts during the period ended June 30, 2016 of $1,986 (June 30, 2015 – Nil).

9. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES

The Fund is exposed to a variety of financial risks: credit risk, liquidity risk, and market risk (including other price risk), in the normal course of business. The value of investments held within the Fund will fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market, and company specific news. The level of risk depends on the Fund's investment objectives and the type of securities in which it invests.

The Fund's overall risk management program seeks to minimize the potentially adverse effect of risk on the Fund's financial performance in a manner consistent with the Fund's investment objectives. The risk management practices include monitoring compliance to investment guidelines. The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio advisors that regularly monitor the Fund's positions and market events, and diversify investment portfolios within the constraints of the investment guidelines.

Credit Risk

Credit risk is the risk that a security issuer or counterparty to a financial instrument will fail to honour its financial obligation or commitment that it has entered into with a Fund. The Fund minimizes credit risk by maintaining its primary bank account at a reputable financial institution.

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at June 30, 2016, the Fund invested in debt instruments with the following credit ratings:

Debt securities by credit rating*	**% of Net Assets**
AAA	**-118.56%**
AA	**9.84%**
A	**61.91%**
BBB	**95.93%**
Below BBB	**41.35%**
Total	**90.47%**

(Expressed in Canadian Dollars)

As at December 31, 2015, the Fund invested in debt instruments with the following credit ratings:

	2015
Debt securities by credit rating*	**% of Net Assets**
AAA	-175.50%
AA	24.13%
A	35.58%
BBB	155.09%
Below BBB	33.86%
Total	**73.16%**

*Extracted the blended composite debt securities ratings from Bloomberg, which is a blend of a security's Moody's, S&P, Fitch, and DBRS ratings. The rating agencies are evenly weighted when calculating the composite. It is calculated by taking the average of the existing ratings, rounded down to the lower rating in case the composite is between two ratings. A composite is not to be generated if the debt security is rated by only one of the four rating agencies.

Liquidity Risk

Liquidity risk is the risk that a Fund may not be able to settle or meet its obligation on time or at a reasonable price. The Fund is exposed to monthly cash redemptions of redeemable units. The units of the Fund are issued and redeemed on demand at the then current Net Asset Value per unit at the option of the unit holder. Liquidity risk is managed by investing the majority of the Fund's assets in investments that can be readily disposed of. In addition, the Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity for the purpose of funding redemptions. The Fund's financial liabilities are all due within one year, and the Fund has sufficient cash on hand to settle these in due course.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Fund holds securities with fixed interest rates that expose the Fund to fair value interest rate risk. The Fund's policy requires the Manager to manage this risk by calculating and monitoring the average effective duration of the portfolio of these securities. The Fund also holds a limited amount of cash subject to variable interest rates which exposes the Fund to cash flow interest rate risk.

The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity as at June 30, 2016.

	Bonds
1-3 years	$ 4,302,174
3-5 years	(1,410,052)
>5 years	15,682,215
Total	$ 18,574,338

The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity as at December 31, 2015.

	Bonds
1-3 years	$ 4,188,560
3-5 years	2,883,170
>5 years	8,331,574
Total	$ 15,403,304

As at June 30, 2016, had the prevailing interest rates raised or lowered by 1%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $1,676,972 (December 31, 2015 - $10,507). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Market Risk

Other Price Risk

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate due to changes in market conditions (other than those arising from interest rate risk or currency risk).

All investments represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the market value of the financial instruments. Financial instruments held by the Fund are susceptible to market price risk arising from uncertainties about future prices of the instruments.

As at June 30, 2016, a 5% increase or decrease in stock prices would have increased or decreased the Fund's Net Assets by $65,074 (December 31, 2015 - $993,641). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

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.

	Percentage of Net Assets (%)	
Portfolio by Asset Type	**2016**	**2015**
Corporate Bonds	162.0	226.8
Government of Canada Bonds	35.1	12.4
Foreign Bonds	15.3	9.5
Canadian Equities	6.3	-
Canadian Bonds Sold Short		
Government of Canada Bonds	-121.9	-175.5
U.S. Equities		21.2
Other Assets and Liabilities, Net	3.2	5.6
	100.0	**100.0**

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the Fund's functional currency. Changes in the value of the Canadian dollar compared to foreign currencies will affect the value, in Canadian dollar terms, of any foreign securities held in the Fund. These fluctuations may reduce, or even eliminate, any return the Fund has earned on foreign securities. Currency exposure may increase the volatility of foreign investments relative to Canadian investments.

The table below indicates the currencies to which the Fund had significant exposure as at June 30, 2016:

	Cash	Investments	Total
U.S. Dollar	$ -	$ 3,150,025	$ 3,150,025

The table below indicates the currencies to which the Fund had significant exposure as at December 31, 2015:

	Cash	Investments	Total
U.S. Dollar	$ -	$ 1,997,961	$ 1,997,961

(Expressed in Canadian Dollars)

As at June 30, 2016, had the Canadian dollar strengthened or weakened by 5% in relation to U.S. dollar, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $157,501 (December 31, 2015 - $99,898). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

10. FAIR VALUE DISCLOSURES

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis as at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Canadian Equities	$ 1,301,470	$ -	$ -	$ 1,301,470
Canadian Corporate Bonds	-	33,251,175	-	33,251,175
Canadian Provincial Bonds	-	7,204,464	-	7,204,464
Canadian Federal Bonds	-	(25,031,326)	-	(25,031,326)
Foreign Bonds	-	3,150,025	-	3,150,025
	$ 1,301,470	$ 18,574,338	$ -	$ 19,875,808

The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis as at December 31, 2015:

	Level 1	Level 2	Level 3	Total
Canadian Equities	$ 4,469,510	$ -	$ -	$ 4,469,510
Canadian Corporate Bonds	-	47,744,707		47,744,707
Canadian Provincial Bonds	-	2,605,223		2,605,223
Canadian Federal Bonds	-	(36,944,586)	-	(36,944,586)
Foreign Bonds	-	1,997,961	-	1,997,961
	$ 4,469,510	$ 15,403,305	$ -	$ 19,872,815

There have been no transfers into or out of level 1, 2 or 3 during the period June 30, 2016 and December 31, 2015.

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS BY CATEGORY

The following tables present the carrying amounts of the Fund's financial instruments by category as at June 30, 2016:

Assets	Financial assets at FVTPL designated at inception	Financial assets at amortized cost	Total
Investments at fair value	44,907,134	-	44,907,134
Cash	-	543,832	543,832
Receivable for investments sold	-	215,758	215,758
Supscriptions recievable	-	15,500	15,500
Accrued interest receivable	-	256,136	256,136
Accrued dividends receivable	-	10,158	10,158
Total	**44,907,134**	**1,041,384**	**45,948,518**

Liabilities	Financial liabilities at FVTPL designated at inception	Financial liabilities at amortized cost	Total
Short positions at fair value	25,031,326	-	25,031,326
Redemptions payable	-	175,014	175,014
Distributions payable	-	1,299	1,299
Accrued liabilities	-	132,294	132,294
Accrued interest on short positions	-	79,199	79,199
Total	**25,031,326**	**387,806**	**25,419,132**

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2015:

Assets	Financial assets at FVTPL designated at inception	Financial assets at amortized cost	Total
Investments at fair value	56,817,400	-	56,817,400
Cash	-	1,283,348	1,283,348
Accrued interest receivable	-	391,669	391,669
Accrued dividends receivable	-	20,100	20,100
Total	**56,817,400**	**1,695,117**	**58,512,517**

Liabilities	Financial liabilities at FVTPL designated at inception	Financial liabilities at amortized cost	Total
Short positions at fair value	36,944,586	-	36,944,586
Redemptions payable	-	294,325	294,325
Distributions payable	-	8,337	8,337
Accrued liabilities	-	102,747	102,747
Accrued interest on short positions	-	110,764	110,764
Total	**36,944,586**	**516,173**	**37,460,759**

(Expressed in Canadian Dollars)

The following table presents the net gains (losses) on financial instruments at FVTPL by category for the six months period ended June 30, 2016 and 2015.

	Net gains (losses) 2016	2015
Financial assets at FVTPL		
Designated at inception	$ 2,229,573	$ 218,079
	2,229,573	218,079
Financial liabilities at FVTPL		
Designated at inception	(33,508)	(149,774)
Total	**$ 2,196,065**	**$ 68,305**

12. CAPITAL MANAGEMENT

The capital of the Fund is represented by issued redeemable units with no par value. The units of the Fund are entitled to distributions, if any, and any redemptions are based on the Fund's NAV per unit. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the Statements of Changes in Net Assets Attributable to Holders of Redeemable Units. The Fund endeavors to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

13. FUTURE ACCOUNTING CHANGES

Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below. The Fund will adopt any applicable standards when they become effective.

Financial Instruments - Classification and Measurement (“IFRS 9”)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 introduces a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model, that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value, such that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Fund is in the process of assessing the impact of IFRS 9.

14. STATEMENT OF PORTFOLIO TRANSACTIONS

A statement of portfolio transactions (unaudited) for the period ended June 30, 2016 will be provided without charge by writing to:

Davis-Rea Ltd.
Investment Counsel
79 Wellington Street West
Suite 3535, P.O. Box 239
Toronto, Ontario M5K 1J3