Davis-Rea Equity Fund

Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2017 and 2016

RSM

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Davis-Rea Equity Fund

We have audited the accompanying financial statements of Davis-Rea Equity Fund, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Davis-Rea Equity Fund as at December 31, 2017 and December 31, 2016, and the results of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 23, 2018
Toronto, Ontario

Davis-Rea Equity Fund
Statements of Financial Position
As at December 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016
Assets		
Cash	**$ 691,866**	$ 16,363,300
Investments at fair value	**121,035,225**	127,227,730
Accrued interest receivable	**14,332**	81,625
Accrued dividends receivable	**130,561**	98,616
Total assets	**121,871,984**	143,771,271
Liabilities		
Redemptions payable	**-**	65,200
Other accrued expense	**42,727**	4,899
Accrued management fees	**171**	33,463
Distributions payable to unitholders	**-**	544
Total liabilities	**42,898**	104,106
Net assets attributable to holders of redeemable units (Note 5)	**$121,829,086**	$143,667,165

Net assets attributable to holders of redeemable units per class (Note 5)		
CLASS A	**$ 15**	$ 984,765
CLASS B	**$ 29,960**	$ 30,790
CLASS N	**$ 14,937,082**	$ 16,562,540
CLASS O	**$106,862,029**	$126,089,070

Net assets attributable to holders of redeemable units per unit		
CLASS A	**$ 13.90**	$ 14.68
CLASS B	**$ 8.45**	$ 8.82
CLASS N	**$ 11.89**	$ 12.23
CLASS O	**$ 11.74**	$ 12.07

Approved on behalf of the Board of Directors of Davis Rea Ltd., the Manager

"John M. O'Connell" (signed)
John M. O'Connell
Director
Davis Rea Ltd.

"P. Zachary Curry" (signed)
P. Zachary Curry
Director
Davis Rea Ltd.

See accompanying notes

Davis-Rea Equity Fund
Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016
Investment Income		
Interest for distribution purposes	**$ 251,400**	$ 197,124
Dividend income	**1,469,279**	997,103
Other income	**-**	811
	1,720,679	1,195,038
Net Gain (Loss) on Investments		
Net realized gain (loss)	**1,160,558**	(6,487,331)
Net foreign exchange loss on cash	**(649,787)**	(1,605,709)
Net other gain (loss)	**95,750**	(275,052)
Change in unrealized appreciation (depreciation)	**(3,206,010)**	19,693,542
	(2,599,489)	11,325,450
Net Investment Income (Loss)	**(878,810)**	12,520,488
Expenses		
Management fees	**3,621**	16,529
Audit	**23,921**	17,267
Custodial fees	**65,830**	64,662
Independent review committee fees	**12,702**	7,518
Legal fees	**12,078**	14,330
Registration and other filing fees (Note 9)	**1,957**	1,957
Trustee fees	**4,894**	5,076
Unitholder communication fees	**47,593**	48,443
Administration fees	**32,290**	20,832
Transaction costs	**42,428**	107,735
Withholding tax	**52,322**	78,347
Harmonized sales tax	**23,146**	23,788
Interest expense	**2,533**	-
	325,315	406,484
Increase (decrease) in net assets attributable to holders of redeemable units	**$ (1,204,125)**	$ 12,114,004

Increase (decrease) in net assets attributable to holders of redeemable units per class

	2017	2016
CLASS A	**$ (44,920)**	$ 62,390
CLASS B	**$ (830)**	$ 1,868
CLASS N	**$ (107,959)**	$ 1,254,212
CLASS O	**$ (1,050,416)**	$ 10,795,534

Average redeemable units outstanding

	2017	2016
CLASS A	**12,128**	66,777
CLASS B	**3,532**	3,476
CLASS N	**1,335,047**	1,283,832
CLASS O	**10,049,589**	12,050,315

Davis-Rea Equity Fund
Statements of Comprehensive Income (Cont'd)
Years Ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

		2017		2016
Increase (decrease) in net assets attributable to holders of redeemable units per unit				
CLASS A	**$**	**(3.70)**	$	0.93
CLASS B	**$**	**(0.24)**	$	0.54
CLASS N	**$**	**(0.08)**	$	0.98
CLASS O	**$**	**(0.10)**	$	0.90

Davis-Rea Equity Fund
Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
Years Ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

Total	**2017**	2016
Net assets attributable to holders of redeemable units at beginning of year	**$143,667,165**	$161,151,272
Increase (decrease) in net assets attributable to holders of redeemable units	**(1,204,125)**	12,114,004
Distributions paid or payable to holders of redeemable units		
From net investment income	**(1,402,770)**	(594,727)
From net realized capital gains	**-**	(1,860,480)
Return of capital	**(1,719,909)**	-
Total distributions to holders of redeemable units	**(3,122,679)**	(2,455,207)
Redeemable unit transactions		
Amount received from the issuance of units	**4,538,687**	11,069,530
Amount received from reinvestment of distributions	**3,061,429**	2,419,794
Amount paid on redemptions of units	**(25,111,391)**	(40,632,228)
Net increase (decrease) from redeemable unit transactions	**(17,511,275)**	(27,142,904)
Net increase (decrease) in net assets attributable to holders of redeemable units	**(21,838,079)**	(17,484,107)
Net assets attributable to holders of redeemable units at end of year	**$121,829,086**	$143,667,165

Class A	**2017**	2016
Net assets attributable to holders of redeemable units at beginning of year	**$ 984,765**	$ 922,373
Increase (decrease) in net assets attributable to holders of Class A units	**(44,920)**	62,390
Distributions paid or payable to unitholders		
From net realized capital gains	**-**	(10,966)
Total distributions to holders of redeemable units	**-**	(10,966)
Redeemable units transactions		
Amount received from the issuance of units	**-**	2
Amount received from reinvestment of distributions	**-**	10,966
Amount paid on redemptions of units	**(939,830)**	-
Net increase (decrease) from redeemable unit transactions	**(939,830)**	10,968
Net increase (decrease) in net assets attributable to holders of redeemable units	**(984,750)**	62,392
Net assets attributable to holders of redeemable units at end of year	**$ 15**	$ 984,765

Davis-Rea Equity Fund
Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (Cont'd)
Years Ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

Class B	2017	2016
Net assets attributable to holders of redeemable units at beginning of year	**$ 30,790**	$ 28,922
Increase (decrease) in net assets attributable to holders of Class B units	**(830)**	1,868
Distributions paid or payable to unitholders		
From net realized capital gains	**-**	(344)
Return of capital	**(455)**	-
Total distributions to holders of redeemable units	**(455)**	(344)
Redeemable units transactions		
Amount received from reinvestment of distributions	**455**	344
Net increase from redeemable unit transactions	**455**	344
Net increase (decrease) in net assets attributable to holders of redeemable units	**(830)**	1,868
Net assets attributable to holders of redeemable units at end of year	**$ 29,960**	$ 30,790

Class N	2017	2016
Net assets attributable to holders of redeemable units at beginning of year	**$ 16,562,540**	$ 15,583,328
Increase (decrease) in net assets attributable to holders of Class N units	**(107,959)**	1,254,212
Distributions Paid or Payable to Unitholders		
From net investment income	**(166,370)**	(57,632)
From net realized capital gains	**-**	(172,704)
Return of capital	**(197,974)**	-
Total distributions to holders of redeemable units	**(364,344)**	(230,336)
Redeemable units transactions		
Amount received from the issuance of units	**-**	1,400,000
Amount received from reinvestment of distributions	**364,344**	230,336
Amount paid on redemptions of units	**(1,517,499)**	(1,675,000)
Net decrease from redeemable unit transactions	**(1,153,155)**	(44,664)
Net increase (decrease) in net assets attributable to holders of redeemable units	**(1,625,458)**	979,212
Net assets attributable to holders of redeemable units at end of year	**$ 14,937,082**	$ 16,562,540

Davis-Rea Equity Fund
Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (Cont'd)
Years Ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

Class O	2017	2016
Net assets attributable to holders of redeemable units at beginning of year	**$126,089,070**	$144,616,649
Increase (decrease) in net assets attributable to holders of Class O units	**(1,050,416)**	10,795,534
Distributions paid or payable to unitholders		
From net investment income	**(1,236,400)**	(537,095)
From net realized capital gains	**-**	(1,676,465)
Return of capital	**(1,521,480)**	-
Total distributions to holders of redeemable units	**(2,757,880)**	(2,213,560)
Redeemable unit transactions		
Amount received from the issuance of units	**4,538,687**	9,669,527
Amount received from reinvestment of distributions	**2,696,629**	2,178,148
Amount paid on redemptions of units	**(22,654,061)**	(38,957,228)
Net decrease from redeemable unit transactions	**(15,418,745)**	(27,109,553)
Net decrease in net assets attributable to holders of redeemable units	**(19,227,041)**	(18,527,579)
Net assets attributable to holders of redeemable units at end of year	**$106,862,029**	$126,089,070

Davis-Rea Equity Fund
Statements of Cash Flows
Years Ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016
Cash provided by (used in)		
Operations		
Increase (decrease) in net assets attributable to holders of redeemable units	**$ (1,204,125)**	$ 12,114,004
Adjustments for:		
Foreign exchange loss on cash	**649,787**	1,605,709
Net realized loss (gain) on sale of investments	**(1,160,558)**	6,487,331
Net change in unrealized (appreciation) depreciation of investments	**3,206,010**	(19,693,542)
Purchase of investments	**(54,112,829)**	(58,150,347)
Proceeds from the sale of investments	**58,259,882**	81,673,696
Interest receivable	**67,293**	(62,910)
Dividends receivable	**(31,945)**	325,300
Other liabilities	**4,536**	(30,735)
	5,678,051	24,268,506
Financing activities		
Amount received from the issuance of units	**4,538,687**	11,069,527
Amount paid on redemptions of units	**(25,176,591)**	(40,567,028)
Distributions paid to unitholders	**(61,794)**	(48,176)
	(20,699,698)	(29,545,677)
Decrease in cash during the year	**(15,021,647)**	(5,277,171)
Change in unrealized foreign exchange on cash	**(649,787)**	(1,605,709)
Cash, beginning of year	**16,363,300**	23,246,180
Cash, end of year	**$ 691,866**	$ 16,363,300

Supplemental Disclosure

Interest received	**$ 318,693**	$ 134,214
Dividends received, net of withholding taxes	**$ 1,385,012**	$ 1,244,056

Davis-Rea Equity Fund
Schedule of Investment Portfolio
As at December 31, 2017
(Expressed in Canadian Dollars)

	Number of Shares / Par Value	Average Cost* $	Fair Value $
CANADIAN EQUITIES - 47.45%			
Energy - 38.70%			
AltaGas Ltd., Subscription Receipts	331,335	10,217,936	9,399,976
Gear Energy Ltd.	10,603,313	13,979,894	9,012,816
Kelt Exploration Ltd.	1,404,315	14,853,807	10,097,025
Keyera Corp.	102,100	3,811,637	3,616,382
Spartan Energy Corp.	1,334,913	11,192,248	9,598,024
Tourmaline Oil Corp.	238,330	8,255,255	5,429,157
		62,310,777	47,153,380
Real Estate - 1.88%			
Automotive Properties REIT	209,460	1,857,680	2,285,209
Utilities - 6.87%			
Brookfield Infrastructure Partners L.P.	148,500	5,266,598	8,372,430
TOTAL CANADIAN EQUITIES		69,435,055	57,811,019
CANADIAN BONDS - 4.16%			
Kelt Exploration Ltd., Convertible, 5.000%, 2021/05/31	3,375,000	3,375,000	5,062,500
TOTAL CANADIAN BONDS		3,375,000	5,062,500
FOREIGN EQUITIES - 47.74%			
Consumer Discretionary -12.33%			
Amazon.com Inc.	4,500	4,594,462	6,593,793
Aptiv PLC	11,000	1,219,011	1,169,165
McDonald's Corp.	11,500	1,121,241	2,480,064
Priceline Group Inc. (The)	600	1,344,054	1,306,381
Walt Disney Co. (The)	25,800	2,651,731	3,475,380
		10,930,499	15,024,783
Financials - 7.44%			
Goldman Sachs Group Inc. (The)	13,200	4,077,492	4,213,460
JP Morgan Chase & Co.	9,000	1,221,970	1,205,914
Wells Fargo & Co.	48,000	3,598,249	3,648,791
		8,897,711	9,068,165
Health Care - 9.48%			
Celgene Corp.	26,000	3,501,732	3,399,704
Cerner Corp.	23,000	1,937,316	1,942,035
Stryker Corp.	32,000	2,264,428	6,208,217
		7,703,476	11,549,956
Industrials - 4.36%			
Stanley Black & Decker Inc.	25,000	2,130,233	5,315,327
Information Technology - 14.12%			
Accenture PLC, Class 'A'	14,600	2,508,410	2,800,486
Activision Blizzard Inc.	14,800	1,231,087	1,174,185
Alphabet Inc., Class 'A'	3,400	2,414,397	4,487,516
Apple Inc.	16,200	2,265,436	3,434,995
Facebook Inc., Class 'A'	24,000	3,024,871	5,306,293
		11,444,201	17,203,475
TOTAL FOREIGN EQUITIES		41,106,120	58,161,706
TOTAL COST AND FAIR VALUE OF INVESTMENTS - 99.35%		**113,916,175**	**121,035,225**
TRANSACTION COST INCLUDED IN AVERAGE COST		**(20,066)**	**-**
TOTAL INVESTMENTS - 99.35%		**113,896,109**	**121,035,225**
OTHER ASSETS AND LIABILITIES - 0.65%			**793,861**
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS - 100.00%			**121,829,086**

*Cost includes transaction costs
Percentage shown relates to investments at fair value to Net Assets Attributable to Holders of Redeemable Units (Net Assets) as at December 31, 2017.

1. ESTABLISHMENT OF TRUST

The Davis-Rea Equity 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, 2011. 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 Fund began to issue Class A, Class B, Class F, Class N and Class O units on June 19, 2011. Prior to March 20, 2013, Class A units of the Fund were intended for accredited investors in units of the Fund, Class F units of the Fund were intended for investors who participate in a fee based program through their dealer, and Class O units of the Fund were intended for investors who entered into an investment management agreement with the Manager. Class N units of the Fund can only be purchased by another Davis-Rea Fund. On and after March 20, 2013, Class A, Class B, Class F and Class O units of the Fund can be bought by any retail investor, provided that in the case of Class F units of the Fund, the investor is participating in a fee based program with their dealer, and in the case of Class O units of the Fund, the investor has entered into a Class O investment management agreement with the Manager.

The financial statements of the Fund for the year ended December 31, 2017 were authorized for issue on March 23, 2018.

2. BASIS OF PRESENTATION

The Fund meets the definition of an investment entity and its purpose is to provide investment management services to its shareholders by investing its net assets for capital growth and/or investment income and by measuring its investment performance on a fair value basis. Refer to the Financial Instruments risk note for the Fund's investment objective.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Assets and Liabilities at Fair Value through Profit or Loss ("FVTPL")

The Fund classifies its investments as financial assets at FVTPL. These financial assets are designated upon initial recognition on the basis that they are in accordance with risk management and investment strategies of the Fund, as set out in the Fund's simplified prospectus.

Subsequent to initial recognition, all financial assets and financial liabilities at FVTPL 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 period in which they arise. Interest and dividend 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 initially measured at fair value and subsequently measured at amortized cost. Transaction costs are included in the initial carrying amount of the asset. The Fund includes in this category accrued interest receivable and accrued dividends receivable.

Other Financial Liabilities

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

Impairment of Financial Assets

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 Statement of Comprehensive Income.

A financial asset not classified at FVTPL 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of Financial Assets (Cont'd)

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.

Investment Transactions and Income Recognition

The accrual method of recording income and expenses 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 income trusts 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 the Statement of Comprehensive Income on debt securities at FVTPL, is recognized on accrual basis and represents the coupon interest received. 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.

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 consider 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Valuation of Investments (Cont'd)

The breakdown of the Fund into the three-level hierarchy is provided in Note 12.

Distributions

Each unitholders' share of income, net of the Fund's expenses and net capital gain, is distributed quarterly.

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 unitholders 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 unitholders 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 realized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Valuation of Fund Units

Net asset value per unit for each class is calculated at the end of the last business day of the month in which the Fund’s Manager is open for business (“valuation day") by dividing the net asset value 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’ prorate 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

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 unitholders 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 presented 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 the present value of the redeemable amount. Net asset value per unit of each series is calculated on the last day of the month (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 and Securities not Quoted in an Active Market

When the Fund holds financial instruments that are not quoted in active markets, 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.

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 judgements on the classification of these investments as either held for trading or designated as FVTPL 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, B, F, N and O issued redeemable units with no par value. There were no Class F units issued or outstanding during the year. 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 11, the Fund endeavours to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

There were no Class F units issued or outstanding during the year.

(Expressed in Canadian Dollars)

5. REDEEMABLE UNITS (Cont'd)

The following table summarizes the changes in the number of units for the year ended December 31, 2017:

	Class A Number of Units	**Class B Number of Units**	**Class N Number of Units**	**Class O Number of Units**
Balance, beginning of year	**67,067**	**3,492**	**1,354,595**	**10,446,208**
Units issued	-	-	**-**	**393,238**
Units redeemed	**(67,066)**	-	**(129,545)**	**(1,968,820)**
Reinvestments	**-**	**53**	**30,949**	**232,035**
Balance, end of year	**1**	**3,545**	**1,255,999**	**9,102,661**

The following table summarizes the changes in the number of units for the year ended December 31, 2016:

	Class A Number of Units	**Class B Number of Units**	**Class N Number of Units**	**Class O Number of Units**
Balance, beginning of year	66,245	3,449	1,365,420	12,835,741
Units issued	-	-	119,139	864,850
Units redeemed	-	-	(150,669)	(3,452,993)
Reinvestments	822	43	20,705	198,610
Balance, end of year	67,067	3,492	1,354,595	10,446,208

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 distribution:

	2017	2016
From net realized capital gain	**$ -**	$ 1,860,480
From net investment income	**$ 1,402,770**	$ 594,727
Return of capital	**$ 1,719,909**	$ -

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 Fund 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. There was no Alternative Minimum Tax as at December 31, 2017 or 2016.

8. MANAGEMENT FEES AND OTHER EXPENSES AND RELATED PARTY TRANSACTIONS

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 unitholders.

The Management fee for Class A, Class B and Class F is computed at 1.75%, 2.00% and 1.50%, respectively, per annum of the net asset value of the Fund plus applicable taxes. The management fee is calculated daily, accrued daily 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 amount of consideration established and agreed to by the related parties.

Other expenses include audit, administration, trustee, custodial, unitholder communication, and harmonized sales tax.

Custodial 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.

9. ECONOMIC DEPENDENCE

As at December 31, 2017, 12.12% (2016 - 11.41%) of total net assets are held by one investor.

10. SOFT DOLLAR COMMISSIONS

The brokerage commissions paid on securities transactions may include "soft dollar" amounts, such as the value of research and other services provided by the broker. Although the Manager uses best efforts to determine the soft dollar portion of commissions paid on portfolio transactions of the Fund, the soft dollar portion, in some instances, is not ascertainable. The Fund paid soft dollar amounts during the year ended December 31, 2017 of $4,311 (2016 - $17,545).

11. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES

The Fund is exposed to a variety of financial risks: credit risk, liquidity risk, interest rate 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 honor 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.

A Fund's source of credit risk is its investments in debt instruments. The fair value of debt instruments includes consideration of the credit worthiness of the issuer, and accordingly represents the maximum credit risk exposure of the investment in debt instruments for the Fund. The Fund's maximum exposure to credit risk in any one investment relates to Kelt Exploration Ltd. in the amount of $5,062,500 which represents 4.16% of the net assets of the Fund (2016 – Air Canada in the amount of $5,943,750 which represented 4.14% of the net assets of the Fund).

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES (Cont'd)

Credit Risk (Cont'd)

The Fund invested in debt instruments with the following credit ratings:

	% of Net Assets	
Debt securities by credit rating*	**2017**	2016
Below BBB	**-**	4.14
Unrated (U)	**4.16**	3.40
	4.16	7.54

*Extracted from 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 unitholder. 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 December 31, 2017 and 2016.

	2017	2016
3 - 5 years	**$ 5,062,500**	$ 4,893,750
>5 years	**-**	5,943,750
	$ 5,062,500	$ 10,837,500

(Expressed in Canadian Dollars)

11. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES (Cont'd)

Interest Rate Risk (Cont'd)

As at December 31, 2017, 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 $184,883 (2016 - $544,518). 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 held by the Fund. Financial instruments held by the Fund are susceptible to market price risk arising from uncertainties about future prices of the instruments.

As at December 31, 2017, a 5% increase or decrease in stock prices would have increased or decreased the Fund's net assets by $5,798,636 (2016 - $5,819,512). 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 Category	**2017**	2016
Canadian Equities		
Consumer Discretionary	**-**	0.7
Energy	**38.7**	42.8
Real Estate	**1.9**	3.1
Utilities	**6.9**	4.7
Canadian Bonds	**4.2**	7.5
Foreign Equities		
Consumer Discretionary	**12.3**	5.4
Financials	**7.4**	-
Health Care	**9.5**	9.9
Industrials	**4.4**	2.7
Information Technology	**14.1**	11.8
Other assets and liabilities, net	**0.6**	11.4
	100.0	100.0

11. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES (Cont'd)

Market Risk (Cont'd)

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 December 31, 2017:

	Cash	Investments	Total
U.S. Dollar	**$ 90,704**	**$58,161,706**	**$58,252,410**

The table below indicates the currencies to which the Fund had significant exposure as at December 31, 2016:

	Cash	Investments	Total
U.S. Dollar	$15,343,705	$42,801,987	$58,145,692

As at December 31, 2017, had the Canadian dollar strengthened or weakened by 5% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $2,912,620 (2016 - $2,907,285). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

12. 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 at December 31, 2017:

(Expressed in Canadian Dollars)

12. FAIR VALUE DISCLOSURES (Cont'd)

	Level 1	Level 2	Level 3	Total
Canadian Equities	**$ 57,811,019**	$ -	$ -	**$ 57,811,019**
Foreign Equities	**58,161,706**	-	-	**58,161,706**
Canadian Bonds	-	**5,062,500**	-	**5,062,500**
	$115,972,725	**$ 5,062,500**	**$ -**	**$121,035,225**

There have been no transfers between level 1, 2 or 3 investments in the years ended December 31, 2017 and 2016.

The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Canadian Equities	$ 73,588,243	$ -	$ -	$ 73,588,243
Foreign Equities	42,801,987	-	-	42,801,987
Canadian Bonds	-	10,837,500	-	10,837,500
	$116,390,230	$ 10,837,500	$ -	$127,227,730

13. FINANCIAL INSTRUMENTS BY CATEGORY

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2017:

Assets	**Financial Assets at FVTPL Designated at Inception**	**Financial Assets at Amortized Cost**	**Total**
Investments	**$121,035,225**	**$ -**	**$121,035,225**
Cash	**-**	**691,866**	**691,866**
Accrued interest receivable	**-**	**14,332**	**14,332**
Accrued dividends receivable	**-**	**130,561**	**130,561**
Total	**$121,035,225**	**$ 836,759**	**$121,871,984**

Liabilities	**Financial Liabilities at FVTPL Designated at Inception**	**Financial Liabilities at Amortized Cost**	**Total**
Accrued liabilities	**$ -**	**$ 42,898**	**$ 42,898**

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS BY CATEGORY (Cont'd)

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2016:

Assets	Financial Assets at FVTPL Designated at Inception	Financial Assets at Amortized Cost	Total
Investments	$127,227,730	$ -	$127,227,730
Cash	-	16,363,300	16,363,300
Accrued interest receivable	-	81,625	81,625
Accrued dividends receivable	-	98,616	98,616
Total	$127,227,730	$ 16,543,541	$143,771,271

Liabilities	Financial Liabilities at FVTPL Designated at Inception	Financial Liabilities at Amortized Cost	Total
Redemptions payable	$ -	$ 65,200	$ 65,200
Distributions payable to unitholders	-	544	544
Accrued liabilities	-	38,362	38,362
Total	$ -	$ 104,106	$ 104,106

The following table presents the net gains (losses) on financial instruments at FVTPL by category for the years ended December 31, 2017 and 2016.

	Net Gains (Losses) 2017	2016
Financial assets at FVTPL designated at inception	$ (229,023)	$ 14,126,201

14. 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 net asset value 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. There has been no change in the capital management policy during the year.

15. FUTURE ACCOUNTING CHANGES

Standard issued but not yet effective up to the date of issuance of the Fund's financial statements is 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.

16. STATEMENT OF PORTFOLIO TRANSACTIONS

A statement of portfolio transactions for the year ended December 31, 2017 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