PORTLAND
INVESTMENT COUNSEL™

Portland Private Income Fund
2018 Interim Report

June 30, 2018

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COMMENTARY	
PORTFOLIO MANAGER	**Christopher Wain-Lowe,** BA, MBA Chief Investment Officer, Executive Vice President and Portfolio Manager

Overview

The investment objective of the Portland Private Income Fund (the Fund) is to preserve capital and provide income and above average long-term returns. The Fund ultimately intends to achieve its investment objective by investing all, or substantially all, of its net assets in the Portland Private Income LP (the Partnership). Although the Fund ultimately intends to invest all, or substantially all, of its net assets in the Partnership, Portland Investment Counsel Inc. (the Manager) currently determines and, from time to time, may determine that the investment objective of the Fund can be best achieved through direct investment in underlying securities and/or investment in other pooled investment vehicles. To the extent the Fund makes direct investments, it will apply the investment strategies of the Partnership.

The investment objective of the Partnership is to preserve capital and provide income and above average long-term returns by investing primarily in a portfolio of private debt securities, either directly or indirectly through other funds, consisting of:

- private mortgages, administered by licensed mortgage administrators, currently MarshallZehr Group Inc. (Mortgage Administration #11955) (MarshallZehr or the Mortgage Administrator);
- private commercial debts, a portion of which may have participating features resulting in equity ownership of the issuer of the debt or the underlying asset if certain events occur;
- other debt securities, a portion of which may have participating features resulting in equity ownership of the issuer of the debt or the underlying asset if certain events occur;
- investments in complementary income producing public securities, including real estate income trusts, royalty income trusts, preferred shares, dividend paying equity securities and debt securities including convertibles, corporate and sovereign debt; and
- investments in investment funds, exchange traded funds and mutual funds which may or may not be managed by the Manager.

The Manager decides whether or not the Partnership participates in mortgages offered to it by the Mortgage Administrator.

The Manager will invest some of the Partnership's assets in investment products directly or indirectly managed by specialty investment managers which it believes have disciplined investment philosophies that are similar to its own (a Specialty Investment Manager). The Manager decides whether the Partnership invests in a fund managed by a Specialty Investment Manager and the extent of the commitment to that fund; but does not decide on the individual loans or investments which will comprise that Specialty Investment Manager's fund.

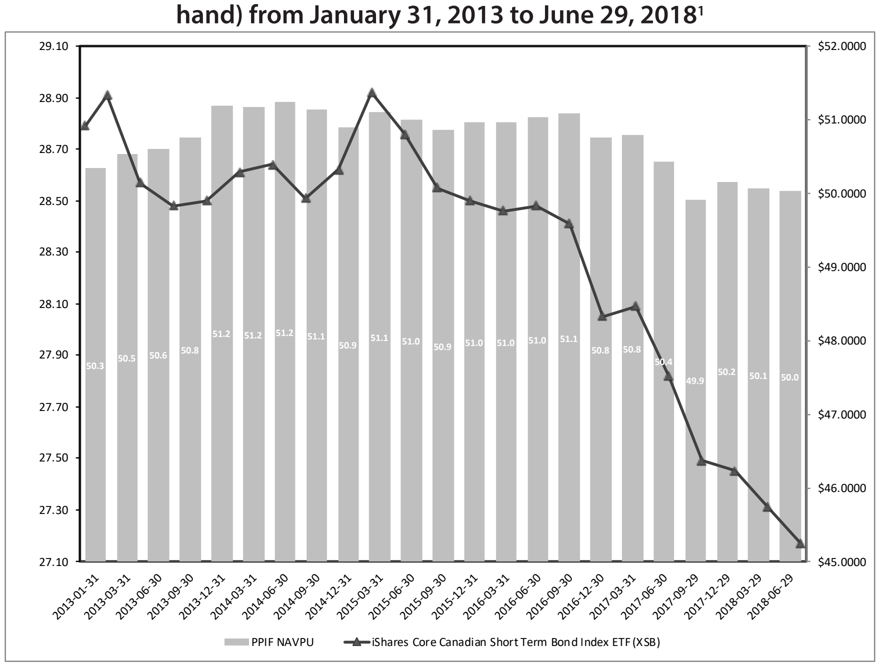
Current Specialty Investment Managers are the European Investment Fund (EIF) and its sister institution the European Investment Bank (EIB), which provide institutional support for the Global Energy Efficiency and Renewable Energy Fund (GEEREF) investment team, EnTrustPermal Ltd. (EnTrustPermal), and Crown Capital Partners Inc. (Crown). Christopher Wain-Lowe, the lead portfolio manager of the Fund, is a non-voting observer member of Crown's investment committee.

The following discussion covers the period from January 1, 2018 to June 30, 2018. Information related to investments is presented on a combined basis whether the investments are held by the Fund or the Partnership.

Financial Highlights

The Fund's return from January 1, 2018 to June 30, 2018 was 3.7% for Series A and 4.3% for Series F units. The Fund's net asset value (NAV) per unit as of June 30, 2018 was $48.96 for Series A units and $50.03 for Series F units. The Fund has delivered annualized and cumulative returns since inception on February 28, 2013 of 7.8% and 49.2% for Series A units and since inception on January 7, 2013 of 9.1% and 61.0% for Series F units, respectively, while exhibiting little variance in its monthly NAV per unit compared to publicly listed short-term debt instruments, such as the iShares Core Canadian Short Term Bond Index ETF (XSB), as depicted in Chart 1. For the year ended June 30, 2018, the iShares Core Canadian Short Term Bond Index ETF achieved a 0.3% total return.

Chart 1. Historical net asset value per unit for the Fund's Series F (right hand) versus iShares Core Canadian Short Term Bond Index ETF (XSB) (left hand) from January 31, 2013 to June 29, 2018[1]



While rising interest rates do adversely impact current fair market value of loans in the Fund, we believe the credit impact is modest. While the Fund continues to achieve its long-term targeted rates of return, 2017 and year to date was subjected to some volatility as the Canadian market was initially surprised by the Bank of Canada's decision to raise interest rates and so began to unwind stimulating the economy while still targeting an inflation rate of 2%. Now, with prospects for interest rates to rise, we believe the Fund will continue to outperform publicly traded fixed income instruments while being wary of the potential negative impact that a collapse in the North American Free Trade Agreement (NAFTA) could have on the Canadian economy. Nonetheless, given the large shock to the economy that the Great Recession caused by delaying business investment, as business investment begins to increase a decade later, we would expect business investment to be more pronounced.

The Fund declared quarterly distributions commencing with the quarter ending March 2013 and moved to monthly fixed distributions since January 2014. During the year to date, the Fund has maintained its regular distributions of $0.3333 per unit per month and $0.3750 per unit per month, for Series A units and Series F units, respectively.

Recent Developments and Outlook

When deciding to create this Fund, we wanted to create a portfolio that could straddle a variety of investment opportunities, be nimble to adapt to changing circumstances and alive to the best opportunities within those circumstances, while delivering steady income distributions and a stable NAV. From 2013 to mid 2015 we selected a portfolio almost exclusively of private mortgages. Since mid-2015, we have gradually assessed the attractiveness of the housing market compared to other commercial opportunities and selected three Specialty Investment Managers to enable the Fund to take advantage of those opportunities with the most recent selection and commitment to a fund managed by EnTrustPermal being initiated in June 2017.

In June 2018, the Fund began offering for the first time a preferred class of units (the Preferred Units). Preferred shares are already a popular investment for investors seeking lower risk compared to an equity investment in the same issuer. Our legal counsel believes this is the first time in Canada that preferred units are being offered by an open-ended mutual fund trust.

The Preferred Units are being issued to provide support to the investment objectives of the Fund by providing a source of borrowing at what we believe to be an attractive cost, which is expected to be between the borrowing cost of a prime brokerage facility and a loan facility. The Preferred Units will be included as debt in the calculation of borrowing as outlined in the investment strategies, which continues to be an aggregate amount of up to 25% of the total assets of the Partnership after giving effect to the borrowing.

The Preferred Units are available in two series, Series AP and Series FP, with a minimum investment of $5,000 and are available for purchase in registered accounts. Subscriptions for Preferred Units must be received no later than the 20th calendar day of the month. The Preferred Units are intended to be priced at a fixed NAV per unit of $10.00. Redemptions require 60 days' notice and no redemption fees apply.

The Preferred Units are expected to pay a monthly distribution ranging from the Royal Bank of Canada Prime Rate (the Prime Rate) to no more than the cost of unsecured debt available to the Partnership. As at March 31, 2018, the Prime Rate was 3.45%, which we will review quarterly and will post the current distribution rates on the Fund's website at http://www.portlandic.com/privateincome.html. We will look to adjust the distributions once the Prime Rate has changed by 50 basis points. Initially, the monthly distribution will be the Prime Rate for Series AP units and the Prime Rate + 1.0% for Series FP units.

Canadian Mortgage Market

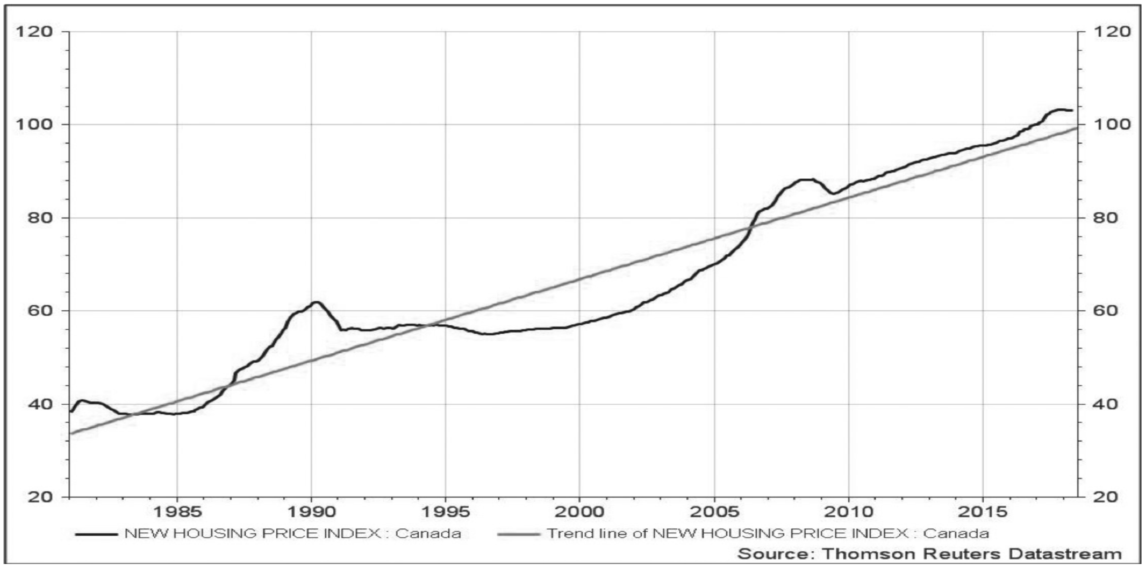
The Canadian Housing Market remains relatively expensive yet robust as policymakers increasingly look to intervene to curtail excesses in various guises. On April 20, 2017, the Ontario provincial government announced the Ontario Fair Housing Plan aimed at cooling the surging Toronto housing market, including a 15% non-resident speculation tax. The tactic does appear to have reduced appetite for residential houses but there seems to be little respite in the demand for condominiums.

In its April 2017 budget, the Ontario provincial government moved to tighten oversight of syndicated mortgage investments; it announced that it will transfer responsibility for the syndicated mortgage sector away from the Financial Services Commission of Ontario (FSCO) and to the Ontario Securities Commission (OSC). The shift was recommended in 2016, recognizing the significant increase in the syndicated mortgage sector over recent years and the OSC's experience of overseeing securities products. Syndicated mortgages are mortgage investment products marketed by companies that finance real estate development using money provided by a pool of investors. Several mortgage firms have faced lawsuits in recent years from investors upset that development projects have not proceeded after companies faced financial difficulties. The shift of oversight to the OSC is consistent with the way syndicated mortgage products are regulated in other provinces. The shift follows publicity of some failing syndicated mortgage investments and the premise that more money than ever is chasing mortgage deals, which in turn has caused interest rate compression for Mortgage Investment Entities (MIE's). Therefore, MIE's have been faced with the decision to either let the yield fall or take on extra risk to keep yields up.

In October 2017, the Office of the Superintendent of Financial Institutions (OSFI) published a final version of Residential Mortgage Underwriting Practices and Procedures, which came into effect January 1, 2018 and applies to all federally regulated financial institutions. OSFI now requires that the minimum qualifying rate or "stress test" for all uninsured mortgages (generally, mortgages with a down payment of 20% or more) is to be the greater of the five-year benchmark rate published by the Bank of Canada or the contractual mortgage rate plus 2%. In addition to this, OSFI is requiring lenders to establish and adhere to appropriate loan-to-value limits that are reflective of risk and are updated as housing markets and the economic environment evolve. Finally, OSFI is also requiring that all federally regulated financial institutions refrain from arranging with another lender a mortgage, or a combination of a mortgage and other lending products, in any form that circumvents the institution's maximum loan-to-value or other limits in its residential mortgage underwriting policy, or any requirements established by law. These are changes that we will be monitoring in the mortgage market as stricter lending requirements may have an impact on real estate valuations in 2018 and may push prospective homeowners to apply to credit unions or alternative lenders that are not federally regulated to finance their mortgages.

Chart 2 highlights Canadian real home index prices from January 15, 1981 to June 30, 2018. This chart seeks to show that real home prices in Canada are on the high-side of their long-term trend, thanks to strong post-recession gains that have run above the rate of inflation. The Bank of Canada's and Canadian Mortgage Housing Corporation's (CMHC) macro prudential efforts to decelerate the trend, have arguably worked to moderate price growth to a level more in line with underlying inflation. However, the recent spike, in our view, helped spur the government in October 2016 to propose risk sharing measures to slow the mortgage and housing markets. Placing an onus on banks to hold some amount of capital on insured mortgages in lieu of a loss sharing agreement, prompted the banks to offset such costs by raising mortgage rates. Such measures on top of the increased tax implications for foreign buyers in Toronto and Vancouver, higher qualifying rates for insurance and the Ontario provincial government's Ontario Fair Housing Plan are all designed to help dampen home ownership demand generally and cool the surging housing markets in cities, notably Toronto and Vancouver.

Chart 2. Canada New Housing Price Index – January 15, 1981 to June 30, 2018



Canada is not alone. House prices are also relatively high in Sydney and Melbourne in Australia and Seattle and San Francisco in the U.S. Common to all these cities are buyers from emerging markets, notably China, who are willing to pay a premium to secure a safe place for their savings and so at the margin, help to drive a wedge between the prices of homes and the local fundamentals of incomes and rental payments. This mismatch is frustrating local policymakers, hence the introduction of the non-resident taxes first introduced in Vancouver and more recently in Ontario.

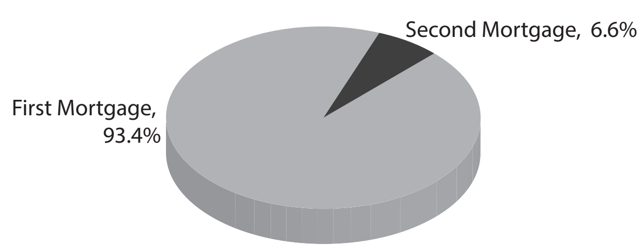
In June 2018, the CMHC released Canadian Housing Starts data that showed the pace of new housing construction in Canada slowed in May, after several months of above-average activity, returning multi-unit urban construction close to its 10-year average. However, absent more material evidence of a cooling market, we recognize the heightened evidence of overvaluation in Toronto is spreading to more adjacent cities further prompting our actions to moderate the Fund's exposure to mortgages.

The heightened evidence of overvaluation in Toronto spreading to more adjacent cities, caused the moderation of the Fund's exposure to mortgages. We have continued to shun exposure to mortgages in downtown Toronto and welcome the macro prudential efforts underway to engineer a cool down in prices. The Fund does have exposure to Ontario's retirement, student and retail markets and has experience investing in affordable housing, which we believe is increasingly needed as urbanization increases a city's 'support network' of service industry workers.

We do source commercial mortgages from MarshallZehr, a licensed mortgage broker, which we have worked alongside for several years. We both welcome the tightening oversight of the syndicated mortgage market and expect the differences between how MarshallZehr and other well practiced firms operate, will shine through compared to those brokers now losing their licenses. We are experiencing how the dislocation of some operators presents attractive opportunities. MIE's are not a homogeneous group and should be viewed as a "sector" only in the broadest of terms. The Fund lends short-term to developers and not long-term to individuals labelled by FICO® as rating below scores of 660 and by banks as sub-prime. The Fund lends to developers known to MarshallZehr based on a project's understood exit, typically take-out financing as the development progresses or based on verified presales. We have been appreciative of the approach taken and quality of mortgage opportunities presented to us by MarshallZehr.

In a capital structure, equity holds the greater risk and is the cushion against which debt can be repaid. As of June 30, 2018, the weighted average loan-to-value (LTV) of the mortgage portion of the Fund's portfolio was 67% (63% as at December 31, 2017) and its securities consisted primarily of first mortgages (see Table 1 and Chart 3). LTV is the ratio of loans advanced to date, to the appraised value of the project by MarshallZehr and/or independent appraisers and the Manager.

Chart 3. Mortgage portfolio breakdown by type of security as of June 30, 2018



In our view, it would take a decline in property values in the order of greater than 25% to put the Fund's portfolio of mortgages at risk from a tangible collateral perspective and typically all the mortgages to developers are also secured by corporate or personal guarantees.

Canadian Commercial Loan Market

Aside from our views on the Canadian mortgage market, we have long believed that middle-market companies (revenues between $50 million and $500 million) are vital to the Canadian economy, yet they have remarkably few alternatives to access growth capital to expand their operations, fund acquisitions, or recapitalize. Canada's financial landscape is dominated by chartered banks and private equity funds, whose financial terms and dilutive financing structures are often ill-suited to meet the demands of mid-market companies. There is, we believe, a clear funding gap between equity providers and bank debt. Continued market uncertainty and banking regulatory changes have exacerbated the funding gap, as banks further limit their willingness to extend adequate credit, so providing the increasing growth opportunity for focused specialty finance providers. Therefore, over the last 3 years, we have gradually diversified the Fund's portfolio to include private commercial debt which we believe offers attractive risk-adjusted returns.

In July 2016, the portfolio broadened its exposure to private commercial loans via Crown, the specialty finance company focused primarily on providing capital to successful Canadian companies and to select U.S. companies. Crown originates, structures and provides tailored transitory and permanent financing solutions in the form of loans, royalties and other structures with minimal or no ownership dilution. Effective July 1, 2018, Crown Capital Fund IV, LP was renamed Crown Capital Partner Fund, LP (Crown Partner Funding). In July 2017, Crown increased the size of Crown Partner Funding, its fourth special situations debt fund to $225 million and increased it again to $300 million on July 13, 2018. Whereas Crown's focus is on financing deals of more than 5 years, Crown Partner Funding's focus is primarily on deals of 5 years or less. Initially, Crown owned 50% of Crown Partner Funding but as the fund grows it is steadily lowering its stake towards a targeted 30% ownership so enabling the Fund's portfolio to increase its ownership, from 10% initially to 17.5% effective July 13, 2018, being one of a select few other limited partners including the Investment Management Corporation of Ontario (formerly Ontario Pension Board). The Fund's commitment to Crown Partner Funding as at June 30, 2018 when it was $225 million was 91.93% drawn. The portfolio of commercial loans held by Crown Partner Funding are detailed on Crown's website at www.crowncapital.ca. As at June 30, 2018, Crown Partner Funding comprised 12 loans ranging in size from $7 million to $30 million. A sector breakdown of the commercial loans is provided under the heading: Commercial Loans: Canada and Global Maritime and in Chart 8.

During the six months ended June 30, 2018, the additions and deletions to the portfolio of commercial loans held by Crown Partner Funding were:

- In January, Crown announced the closing of a $33.0 million term loan to Baylin Technologies Inc. (TSX:BYL), a global provider of innovative wireless antenna solutions with over 39 years of experience in designing, manufacturing and supplying antennas for the wireless infrastructure, networking and mobile markets. Headquartered in Toronto, Baylin maintains world-class research and development and engineering capabilities in Arizona, U.S. and Ottawa, Canada. Baylin is one of a few antenna manufacturers with design capabilities in indoor and outdoor cellular antenna systems, small cells, set-top boxes and mobile phones. To date, Baylin has produced more than one billion antennas and designed over 2,000 unique custom antennas. The company has production capacity of 250 million antennas per year across three manufacturing facilities in China, South Korea and Vietnam. Baylin has used the proceeds of the term loan to acquire the radio frequency, terrestrial microwave and antenna equipment divisions of Advantech Wireless Inc. and its affiliates (collectively, Advantech). Advantech is a provider of wireless broadband communications solutions, whose innovative solutions have for more than 25 years, enhanced the capabilities of government and commercial clients in over 150 countries. Advantech is headquartered in Montreal and has offices across North America, South America and Europe. The agreement provides for a $33.0 million term loan to Baylin, of which Crown Partner Funding has advanced $30.0 million. Crown syndicated $3.0 million of the loan to two of Crown Partner Funding's institutional limited partners, including the Partnership. The term loan bears a fixed interest rate of 9.0% per annum and matures in 60 months. In addition, a total of 682,500 warrants of Baylin were issued to Crown Partner Funding and its syndicate partners.
- In May, Crown announced the closing of a $12.0 million term loan to DATA Communications Management Corp. (DCM) (TSX:DCM), a leading provider of integrated business communication solutions to companies across North America. Founded in 1959, DCM's core capabilities include direct marketing, commercial print services, labels and asset tracking, event tickets and gift cards, logistics and fulfilment, content and workflow management, data management and analytics, and regulatory communications. The company serves clients in key vertical markets such as financial services, retail, healthcare, lottery and gaming, not-for-profit and energy. DCM is strategically located with six facilities across Canada to support clients on a national basis, and serves the U.S. market through facilities in Chicago, Illinois and New York, New York. DCM will use part of the proceeds of the term loan to acquire the Perennial Group of Companies (the Perennial Group), which includes Perennial Inc., one of Canada's leading design firms focused on creating and delivering design strategies for major retail brands in Canada and around the world, and The Finished Line Studios, an independent, multi-function creative, execution and production art studio. The Perennial Group has a 25-year track record of retail strategy design and execution for many of North America's top brands in the retail, financial services and consumer packaged goods markets. Crown's financing will also be used for debt repayment and general working capital purposes. The term loan bears a fixed interest rate of 10% per annum, matures in 60 months, and includes the issue to Crown of warrants to acquire 960,000 common shares of DCM.
- Also in May, Crown announced the closing of a $25.0 million term loan to Persta Resources Inc., a Calgary-based company engaged in natural gas and crude oil exploration and production, with a focus on natural gas. Founded in 2005, Persta is focused on long-term growth through exploration, development, production and acquisitions in the Western Canadian Sedimentary Basin. Persta was one of the first oil and gas companies to target the Spirit River/Wilrich zones in the Alberta foothills. Persta holds approximately 120,000 net acres of land and currently has production of approximately 3,100 barrels of oil equivalent production per day, of which approximately 94% is natural gas and 6% is oil and natural gas liquids. Persta completed an initial public offering on the Hong Kong Stock Exchange in March 2017 and its common shares are listed under stock code 3395. Crown's financing will be used for capital expenditures and to reduce the company's senior debt facility. Persta has been able to generate significant cash flow based on its low production costs. The company has a low-risk, repeatable development program and is projecting significant increases in production as it continues to develop its Basing property. The term loan bears a fixed interest rate of 12% per annum, matures in 60 months, and includes the issue to Crown of warrants to acquire 8,000,000 common shares of Persta.
- In June, Crown announced the full repayment by Petrowest Corporation of a special situations loan of $15 million to Petrowest in September 2015. As part of a financial restructuring, Crown Partner Funding and a syndicate partner advanced an additional $12.0 million to Petrowest in May 2017. Petrowest was placed into receivership by its creditors in August 2017 and all of Petrowest's assets were offered for sale. In November 2017, as consideration for the acquisition of the assets of the Civil division from Petrowest, approximately $19.6 million of the loan was assumed by RBee Aggregate Consulting Ltd. (RBee). RBee, which has one of the largest mobile crushing fleets in Western Canada, is now 50% owned by the

management of RBee and 50% owned by Crown Partner Funding and one of its syndicate partners (not the Partnership). As at March 31, 2018, the total amount owing by Petrowest to Crown Partner Funding and its syndicate partner included $7.4 million of loan principal as well as accrued interest and fees. Subsequent to quarter-end, approximately $0.8 million of loan principal was re-allocated from the RBee loan to the Petrowest loan due to final adjustments to the purchase price of the RBee assets, resulting in an outstanding principal amount owing by Petrowest to Crown Partner Funding and its syndicate partner of $8.2 million. Since March 31, 2018, Crown Partner Funding and its syndicate partner have received aggregate payments in respect of the Petrowest loan of $9.7 million, representing full repayment of the principal amount owing, as well as all accrued interest and supplemental fees. The realized gross internal rate of return (IRR)[2] on Crown Partner Funding's aggregate investment in Petrowest was 18.2%. "We are pleased with our team's effort to recover the full investment in the Petrowest loan. While the liquidation of a company is a disappointing and an unfortunate outcome for all involved, we remain committed to delivering superior results for our shareholders and investment partners," said Chris Johnson, President and CEO of Crown. "Separately, RBee is performing well, with strong customer demand resulting in high utilization and favourable operating margins."

Global Renewable Energy Market

We believe that doing well and doing good is an important element to the social contract that we all have with each other as members of society. Environmental, social, and governance (ESG) factors are gaining in prominence and consideration among mainstream investors globally. ESG data spans a range of issues, including measures of company carbon emissions, labour and human rights policies, and corporate governance structures. Policy makers, asset owners, and the public at large are focused on environmental, social and governance factors as a means to promote sustainable business practices and products. Investment professionals increasingly see its potential links to company operational strength, efficiency, and management of long-term financial risks.

Sustainable investing comprises investment strategies that integrate ESG practices into investment decisions when assessing risk and opportunities within a portfolio. Sustainable investing can help combat global challenges such as climate change, unfair business practices and social inequality by investing in businesses that promote ethical and responsible corporate practices.

Research postulates that in addition to achieving positive societal and environmental impacts, during 2006 to 2015, businesses with high sustainability generally outperformed their counterparts by 2% to 5% per year over the long-term, while maintaining a negative correlation with stock market volatility.[3] Research also suggests that corporate sustainability not only generates higher returns during peak phases, but also reduces shareholder's losses during down market periods.[4] The outperformance can be explained by many factors, ranging from: better ESG practices as a proxy for quality management; to firms deriving reputational benefits via sustainable means.

We believe that renewable energy and energy efficiency are at the core of sustainable investing, which in turn is central to the transition to a less carbon-intensive and more sustainable global energy system. The investment in renewable energy and energy efficiency has grown rapidly over the past few years, as costs decline sharply especially for solar photovoltaics and wind power. At the Paris Conference in 2015 where the Paris Climate Agreement was negotiated, the developed countries (except the U.S.) reaffirmed the commitment to mobilize $100 billion a year in climate finance by 2020, and agreed to continue mobilizing finance at the level of $100 billion a year until 2025.[5] The commitment refers to the pre-existing plan to provide U.S. $100 billion a year in aid to developing countries for actions on climate change adaptation and mitigation.[6] As a result, an increasing number of emerging countries have introduced risk mitigants and upgraded their regulatory systems to attract private sector investment.

Renewable energy makes up an increasing share of primary energy supply. An emphasis on energy security and independence, concerns about balance of payments and improving economics relative to falling fossil fuel costs, carbon pricing in some regions and rising fossil fuel prices in the longer-term have significantly raised the profile of renewable energies and their inclusion in primary energy mixes. Large private energy consumers are also keenly interested to strengthen their supplier base and become less reliant upon expensive diesel back-up systems.

The Fund has therefore also invested in Portland Global Energy Efficiency and Renewable Energy Fund LP (Portland GEEREF LP), an investment fund also managed by the Manager via Christopher Wain-Lowe. The investment objectives of Portland GEEREF LP is to provide income and above average long-term returns by investing primarily in the B units of GEEREF, advised by the European Investment Fund and sub-advised by the European Investment Bank, the largest multilateral borrower and lender in the European Union with over €455 billion of loans disbursed as at December 31, 2016.[7] GEEREF is a private equity and infrastructure fund of funds, investing in equity or quasi equity investments in energy efficiency and renewable energy private equity funds, for primarily energy efficiency and renewable energy projects in developing countries (Regional Funds). GEEREF was initiated by the European Commission in 2006 and launched A shares in 2008 with funding from the European Union, Germany and Norway, totaling €112 million. GEEREF successfully concluded its fundraising from private sector investors for B units in May 2015, which brought the total funds under management to €222 million. B units of GEEREF feature a preferred return mechanism and faster return of capital over the A shares currently held by the public sponsors. We believe the preferred return mechanism affords the B unitholders and so the Fund, a particularly attractive risk-adjusted return.

Currently about one out of every five units of energy delivered to consumers comes from renewable sources. This is remarkably evident in the power sector where renewables are growing at unprecedented rates, far outpacing growth in conventional technologies. Since 2012, new generating capacity fueled by renewables has exceeded that fueled by non-renewables by a widening margin. At 154 gigawatts, capacity renewables represented 61% of all new power generating capacity added worldwide in 2015.

Renewables are now the first choice option for expanding, upgrading, and modernizing power systems around the world. Wind and solar power are now competitive with conventional sources of electricity, as their costs have plunged in recent years. The cost of wind turbines has fallen by nearly a third since GEEREF was created in November 2008 and solar photovoltaic modules have fallen by 80% over the same timeframe. These developments are reflected in the levelised cost of electricity with some renewable technologies having reached grid parity. Currently on-shore wind, biomass geothermal and hydropower are all competitive or cheaper than coal, oil and gas-fired power stations even without financial support and despite relatively low oil prices. Countries in the Middle East have included solar as part of their investment into a wider energy portfolio, a possible option in their "post-oil" future.

The drop in crude oil prices has caused many nations to reconsider the allocation of their current subsidies (both towards renewables and towards fossil fuels), which has presented an opportunity for renewable energy to transition from an energy alternative and into an energy staple. With crude oil prices cut by more than half, at least 27 countries have elected to decrease or end subsidies that currently regulate fuel costs for electricity generation (including coal and natural gas). Fossil fuel subsidies have previously been criticized for distorting the energy markets in favour of sources that, without their support, would not be economically viable.

As of March 31, 2018, GEEREF had committed to invest approximately €148 million in twelve Regional Funds, liquidated and so realized about €15.1 million from one Regional Fund and positively received submissions from one successor Regional Fund. The portfolio of Regional Funds held by GEEREF are detailed on GEEREF's website at www.geeref.com. The portfolios of each of the twelve Regional Funds currently comprise 123 investments. Three of these Regional Funds have finished their investment periods and begun the process of divesting. GEEREF is in the process of amending its prospectus to, among other things, provide for the extension of the lifetime of GEEREF. The prospectus amendment will provide for the option to extend the lifetime of GEEREF from November 2023 to November 2025. We expect the prospectus amendment and the subsequent two-year extension to receive the requisite approval of investors. Thereafter, GEEREF may also seek up to three one-year extensions (subject to unanimous approval of all investors). The intent of the extension is ultimately to optimize returns to investors, albeit we do recognize another consequence of the extension is an inevitable slowing of GEEREF's divestments. To date, GEEREF has paid four distributions to Portland GEEREF LP which in turn initiated quarterly distributions from the quarter ended December 2017. In light of the expected extended lifetime of GEEREF, the inevitable slower pace of divesting and the relatively modest exposure of Portland GEEREF LP within the Partnership we've elected to pause from receiving future quarterly distributions and to review that status again in 2019 dependent on GEEREF's pace of successfully divesting from its projects.

Global Maritime Market

Since the Great Recession, European banks, compared to U.S. banks, have been slower to build their capital strength but have historically served as the shipping industry's largest lenders. Regulatory changes now mandate banks to hold more capital and more liquidity and given the concentration and tenure of shipping loans, European banks have been reducing their lending activity to the sector, creating a shortfall in ship financing capacity. In early 2017, the UN International Maritime Organization decided to cap the sulphur content in marine fuel oil from 3.5% to 0.5% in 2020. As we get closer to this deadline, this regulation is expected to increase materially the price of low-sulphur bunker fuel, which cost will ultimately be borne by the end user of the cargo. Nevertheless initially, the shipping lines will bear the costs of increased transportation, as it will require time to be able to pass through the cost to consumers. However, the regulation is likely to be beneficial for the shipping industry as it will reduce / improve the supply situation, primarily due to slower sailing speeds for most segments and the likely acceleration of the scrapping of non-fuel efficient vessels.

Christopher Wain-Lowe has previous direct experience of European banking, having been employed by Barclays plc for nearly 20 years. During that time, Christopher spent over 3 years based in Athens, Greece, ultimately as CEO of Barclays business in Greece responsible for its large shipping portfolio. These earlier experiences assisted the decision in March to select EnTrustPermal Ltd. as the Fund's third Specialty Investment Manager to complement the Fund's existing portfolio via its maritime lending fund, Blue Ocean Fund (Blue Ocean). EnTrustPermal is a leading global alternative asset manager and as one of the world's largest hedge fund investors provides portfolio and risk management services to its commitments for the Blue Ocean strategy of approximately $245 million, which includes the launch in June 2017 of Blue Ocean with an initial closing of U.S. $91.5 million. The Fund was an initial investor in Blue Ocean having committed U.S. $5.0 million with 99.6% drawn as at June 30, 2018. A second closing of Blue Ocean is expected over the next few months via which the Fund anticipates increasing its commitment.

The investment strategy of Blue Ocean is to seek to generate attractive risk adjusted returns by targeting direct lending opportunities to vessel owners by engaging in asset based financings secured by high-quality maritime assets. Blue Ocean is primarily engaged in lending to and investing in shipping companies, non-U.S. oil services companies and other maritime businesses and operations related directly thereto. Blue Ocean seeks to exploit the current twin dislocations in the shipping and European banking sectors by serving as an alternative source of liquidity to companies as traditional lenders reduce their activities.

We anticipate current financing opportunities to be diverse but includes the uneconomic selling by European banks of shipping assets at discounts based on their inability to afford funding such loans, as well as regulatory pressure to reduce exposure. The Manager and EnTrustPermal believe that current financing opportunities in the shipping sector come with significant contractual downside protection given low to moderate loan-to-ship values, historically low asset values and first lien, senior secured structures. Chart 4 illustrates a snapshot of the Blue Ocean portfolio as of June 30, 2018, featuring the finances for 31 vessels with an average vessel age of 9 years. Investments will focus on situations currently being underserved by traditional maritime lenders, including financings of small to medium-sized shipping companies in various degrees of stress. Blue Ocean has initiated making quarterly cash distributions of interest income and principal amortization. The Fund as an investor in Blue Ocean will pay to EnTrustPermal a management fee of 1.5% per annum of the NAV of contributed capital in addition to any organizational costs and ongoing fees and expenses related to the operation of Blue Ocean.

Chart 4. Portfolio Asset Allocation for the Blue Ocean Fund

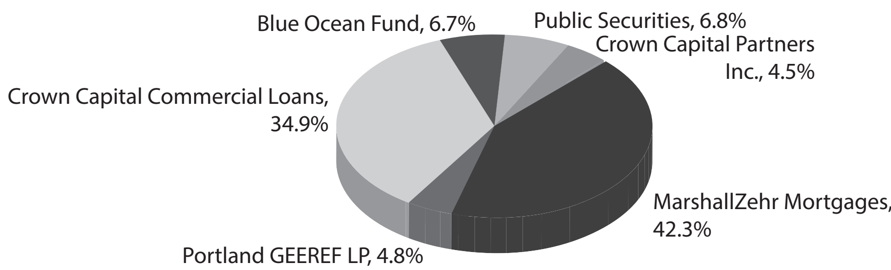
Asset Allocation			
	Container	Dry Bulk	Tanker
Allocation	47.2%	33.6%	19.1%
Committed Value ($U.S.)	$42,800,000	$30,500,000	$17,300,000
Ship Type			
Cargo	Various industrial and consumer goods in large containers	Dry goods, such as grain, ore, cement and other cargo	Liquid goods, such as crude oil, finished petroleum products, liquefied natural gas, chemicals and other liquids

Portfolio Profile

The portfolio is comprised as follows (see Chart 5)[8]:

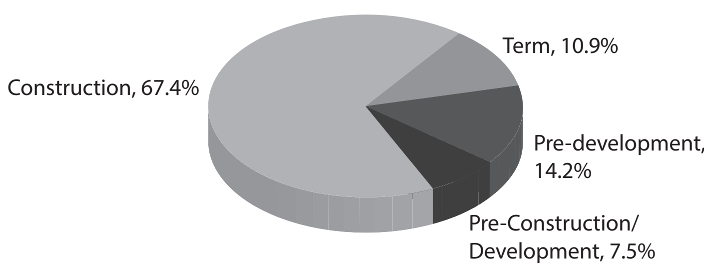
	June 30, 2018	December 31, 2017
Private mortgage loans administered by MarshallZehr Group:	42.3%	44.6%
Crown originated private debt:		
Crown Capital Partner Fund, LP	34.9%	32.7%
Crown Capital Partners Inc.	4.5%	4.8%
Blue Ocean Fund commercial debt (investment made in $U.S.)	6.7%	5.6%
Private Equity:		
Portland Global Energy Efficiency and Renewable Energy Fund LP	4.8%	5.5%
Other Public Securities:	6.8%	6.8%

Chart 5. Investment Allocation as of June 30, 2018[8]



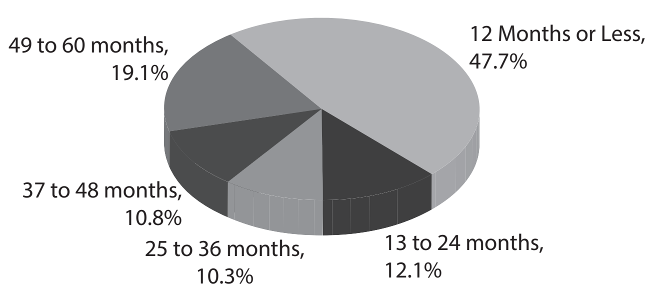
Notwithstanding the developing relationship with Crown and Crown Partner Funding, and now EnTrustPermal and Blue Ocean, a significant component of the portfolio's current investments consists of mortgages in the Greater Toronto Area, South-Western Ontario and Central Ontario including a variety of infill and intensification projects with what the Manager believes to be well-established developers located in areas of increased demand. The projects span term, pre-development, development and construction stages (see Table 1 and Chart 6). The commercial mortgages are diversified across project types, geography, project stage and term, as detailed in Table 1. As of June 30, 2018, 100% of the mortgage investments were in Ontario.

Chart 6. Mortgage portfolio breakdown by mortgage type as of June 30, 2018



Given the portfolio's exposure to mostly short-term commercial mortgages and loans (see Chart 7), we believe it retains the flexibility and capability to outperform publicly listed fixed income instruments as higher interest rates return.

Chart 7. Debt portfolio breakdown by term as of June 30, 2018[9]



The weighted average net interest rate (net of specific provisions) of the mortgage portfolio at June 30, 2018 is 9.8% (see Table 1).

Table 1. Mortgage portfolio as of June 30, 2018

Build Form	Location	Type	Security	Term	Net Interest Rate	Loan to Value
Senior Condominium	Richmond Hill	Pre-Construction/ Development	1st Mortgage	12 months	11.40%	87%
Residential Condominium	Markham	Construction	2nd Mortgage	25 months	11.90%	86%
Mixed Use Condominium	Kitchener	Construction	1st Mortgage	36 months	12.75%	80%
Retirement Residences	Peterborough	Construction	1st Mortgage	6 months	11.90%	71%
Senior/Healthcare Residence	London	Term	1st Mortgage	12 months	9.50%	80%
Student Housing	Barrie	Construction	1st Mortgage	13 months	8.50%	88%
Residential Condominium	Richmond Hill	Construction	1st Mortgage	10 months	9.35%	42%
Residential Subdivision	Oakville	Construction	1st Mortgage	18 months	11.00%	78%
Residential Subdivision	Mississauga	Construction	1st Mortgage	18 months	11.00%	70%
Residential Condominium	Waterloo	Construction	1st Mortgage	18 months	11.90%	96%
Residential Condominium	Richmond Hill	Construction	1st Mortgage	18 months	10.60%	75%
Residential Subdivision	Peterborough	Construction	1st Mortgage	19 months	11.90%	77%
Commercial Development	Hamilton	Construction	1st Mortgage	13 months	10.60%	71%
Commercial Development	Markham	Construction	1st Mortgage	19 months	11.05%	49%
Retirement Residences	Burlington	Pre-Development	1st Mortgage	12 months	8.50%	27%
Retirement Residences	Kitchener	Pre-Development	1st Mortgage	12 months	8.50%	35%
Residential Subdivision	Blue Mountains	Construction	1st Mortgage	25 months	8.00%	50%
Residential Subdivision	Blue Mountains	Construction	1st Mortgage	25 months	11.90%	60%
Residential Subdivision	Mount Hope	Pre-Development	1st Mortgage	25 months	9.00%	55%
Residential	King City	Pre-Development	1st Mortgage	19 months	8.50%	71%
Residential	Muskoka Lakes	Term	1st Mortgage	12 months	10.20%	5%
Residential Subdivision	Brampton	Pre-Development	1st Mortgage	19 months	11.50%	68%
Residential	Whitchurch-Stouffville	Pre-Construction/ Development	1st Mortgage	13 months	8.00%	66%
Residential Subdivision	Bowmanville	Pre-Construction/ Development	1st Mortgage	13 months	12.11%	65%
Residential Condominium	Richmond Hill	Construction	1st Mortgage	13 months	10.60%	78%
Residential Subdivision	Vaughan	Pre-Development	1st Mortgage	17 months	11.20%	87%
Residential Subdivision	Barrie	Pre-Development	1st Mortgage	13 months	10.60%	71%
Residential Subdivision	Niagara Region	Term	1st Mortgage	7 months	8.00%	66%
Commercial Development	London	Pre-Construction/ Development	1st Mortgage	7 months	11.05%	65%
			Weighted Average		9.8%	67%

Commercial Loans: Canada and Global Maritime

As depicted in Chart 8, the portfolio of 12 commercial loans made through Crown Partner Funding plus the exposure to Blue Ocean, is diversifying satisfactorily in our view.

(i) RBee Aggregate Consulting Ltd. (construction/engineering);

(ii) Bill Gosling Outsourcing Holding Corp. (business process outsourcing services);

(iii) Touchstone Exploration Inc. (oil & gas producer);

(iv) Source Energy Sources (frac sand supplier in hydraulic fracturing process);

(v) Solo Liquor Holdings Ltd. (liquor retailer);

(vi) Marquee Energy Ltd. (oil and gas producer);

(vii) Ferus Inc. (energy services);

(viii) Canadian Helicopters Limited (charter & private air services);

(ix) Active Exhaust Corp. (industrial machinery & equipment);

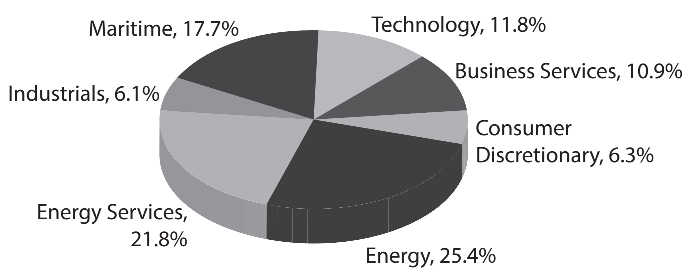
(x) Baylin Technologies Inc. (manufacture and supplier of antennas for the wireless infrastructure, networking and mobile markets);

(xi) DATA Communications Management Corp. (direct marketing and print services);

(xii) Persta Resources Inc. (oil and gas producer, with a focus on natural gas); and

(xiii) Blue Ocean (global maritime/shipping).

Chart 8. Crown Partner Funding and Blue Ocean Breakdown by Sector as of June 30, 2018



We remain confident that current investments, as well as a robust pipeline of investment opportunities, structured/arranged by MarshallZehr, Crown, GEEREF and EnTrustPermal, should allow the Fund to continue to provide its unitholders with similar levels of fully funded distributions, that is Series A and Series F unitholders with about 8% and 9% (based on the initial NAV per unit of $50.00) annualized distributions paid monthly, respectively.

Aligned with the Fund's mandate and pending further investments in private mortgages or increases in capital contributions to Crown Partner Funding and Blue Ocean, approximately 6.8% of its investments (excluding Crown) in the portfolio consist of liquid assets, as follows:

(i) cash, short term notes and subscription receivables;

(ii) a debt holding in a Digicel Limited bond which matures March 1, 2023. Although the bond was issued at U.S. $100.00, we bought it subsequently at U.S. $87.50 so that while its coupon is U.S. $6.75 per annum, its effective yield to the Fund is currently just over 11.4% per annum as its price is rising and approaches its par value at its original issuance. Digicel is a leading wireless telecommunications business in the Caribbean with dominant market shares of above 50% in 20 markets. The accredited rating agency Moody's ranks the bond at 'B1' level which we believe reflects in part the low ratings attributed to many sovereigns in the Caribbean in which Digicel operates. Christopher Wain-Lowe, lived and worked in the Caribbean from 2000 to 2002 and established early relations with Digicel when he was Group Managing Director of National Commercial Bank Jamaica Limited at that time. Digicel is believed to be the most widely held emerging market credit by U.S. high yield accounts and we believe represents an attractively priced asset with credit credentials similar to those sought and adopted by Crown;

(iii) Canadian-listed preferred shares, mostly bought at their initial public offerings, all investment grade rated by DBRS Limited and/or by Standard & Poor's rating agency, mostly including preferred shares which feature interest rate floors built into their structure whereby investors have the comfort of knowing the dividend rate cannot be adjusted lower than the initial rate, ranging from 4.75% to 6.25%;

(iv) Four U.S. business development corporations (BDCs): Ares Capital Corporation, Alcentra Capital Corporation, BlackRock Capital Investment Corporation and Oaktree Strategic Income Corporation. Ares is a leading U.S. specialty finance company focused on lending to underserved middle market companies. It provides 'one stop' financing via a combination of senior and subordinated loans. Its focus is on high free cash flow companies in defensive industries and is one of the largest regulated business development companies in the U.S. Alcentra was formed in early 2014 from funds within Alcentra Group and the high yield fixed income platform within Bank of New York Mellon Corporation (BNY Mellon), the world's largest global custodian and a leading asset manager. Alcentra targets growth companies that are typically less leveraged and we believe its affiliation with BNY Mellon will provide first refusal over many investment opportunities. BlackRock invests primarily in middle-market companies in the form of senior and junior secured and unsecured debt securities. We believe BlackRock is one of the more conservatively managed specialty finance companies being externally managed by BlackRock Advisors, a subsidiary of BlackRock Inc., which is a leading global asset manager. Oaktree consists of virtually all senior secured debt investments that bear interest at floating rates. By comparison to other BDCs held in the portfolio, Oaktree aims to hold higher quality assets with commensurately lower returns which it then levers to generate higher returns. The initial investment in Oaktree was premature given its performance is leveraged to a rising interest rate environment;

(v) an equity holding in Brookfield Property Partners L.P. (Brookfield is a multinational commercial real estate owner, operator and investor). Brookfield possesses a diversified portfolio including interests in approximately 400 office and retail properties encompassing approximately 280 million square feet. In addition, Brookfield owns 46.7 million square feet of industrial space, 27,700 multi-family units as well as 19 hotel assets with over 13,800 rooms. Brookfield is headquartered in Bermuda, while the majority of its properties are located in North America, Europe, Australia and Brazil. Established on January 3, 2013, Brookfield was formed through a spin-off of Brookfield Asset Management Inc. Subsequent to the spin-off, Brookfield Asset Management Inc. continues to share its industry expertise and proven investment strategies while retaining a 19.8% interest in the company; and

(vi) an equity holding in Brookfield Business Partners L.P. which operates as a business services and industrials company, focusing on construction, energy and other business services around the world.

The portfolio also includes an equity holding in Crown equivalent to 4.5% of the Fund's portfolio of investments and, as mentioned above, an exclusive investment in Portland's private offering in renewable energy, Portland GEEREF LP, equivalent to 4.8% of the Fund's portfolio of investments.

The Partnership, may from time to time borrow from a bank, prime broker, the Manager or its affiliates but such borrowings are subject to the restriction that they will not exceed 25% of the total assets of the Partnership. During the period, the portfolio has occasionally borrowed to manage cash flow requirements which resulted in a borrowing with the Partnership's prime broker of $6.4 million representing 6.7% of the total assets of the Partnership as at June 30, 2018. The Partnership also has a U.S. $7 million revolving loan facility that was drawn U.S. $2.15 million representing 3.0% of the total assets of the Partnership as at June 30, 2018. The total leverage of the Partnership (including Preferred Units) is 9.7% as at June 30, 2018 (11.3% as at December 31, 2017).

Credit risk

Credit risk is the risk of suffering financial loss should any of the borrowers fail to fulfill their contractual obligations.

Credit risk is managed by adhering to the investment and operating policies, as set out in the Fund's offering documents. This includes the following policies:

- the majority of mortgages are generally expected to be written for terms of 6 to 36 months and supported by commercial liability insurance and by personal or corporate guarantees;
- the portfolio of mortgages are generally expected to be written for principal amounts at the time of commitment (together with the principal balance outstanding on prior mortgages if applicable), not exceeding 75% of the determined value of the underlying property securing the mortgage;
- the portfolio of commercial loans are generally expected to be first and second lien senior loans and mezzanine debt of 1 to 10 years with amortization and so with terms being between 1 to 7 years, although some may be a much longer duration while bridge loans would typically be less than one year; and
- based on current expectations, the composition of commercial loans is expected to have appropriate loan to value and proper asset protection through their tenors. The investments which are senior secured loans would ordinarily expect to be within the range of 50% - 80% of the determined value of its underlying assets.

Such risks are further mitigated by ensuring a comprehensive due diligence process is conducted on each mortgage prior to funding. This process generally includes, but is not limited to, reviewing legal documentation, independent appraisers' valuations and credit checks and financial statement reviews on prospective borrowers.

We believe that strong management, real cash flow, controlled balance sheet leverage and the ability, either directly or indirectly, to negotiate the appropriate entry price point are the primary drivers of value creation. We would ordinarily expect the leverage of companies being financed within Crown Partner Funding would be less than 50% of their determined value and controlled at or below a ratio of 5x debt/EBITDA[10].

In selecting Crown as a Specialty Investment Manager to manage a portfolio of commercial loans, we reviewed their track record of previously directing three special situation debt funds, which now includes the deployment of over $720 million in 50 secondary debt transactions since 2002. Across Crown's completed 34 transactions to date, they have averaged an IRR of approximately 15% per transaction. Also, Crown's anticipated typical characteristics for the special situation financings being undertaken by Crown Partner Funding include: loans of duration 6 months to 5 years, and covenants including debt/EBITDA typically less than 4x which is within our preferred risk parameters. Christopher Wain-Lowe is a non-voting observer member of Crown's investment committee.

In selecting EnTrustPermal as a Specialty Investment Manager of maritime assets, we reviewed the experiences and expectations of the senior team managing Blue Ocean and agreed with their analysis of opportunities to exploit twin dislocations in the shipping and European banking sectors by serving as an alternative source of liquidity to companies as traditional lenders reduce their activities. Both the Manager and EnTrustPermal believe that current financing opportunities in the shipping sector come with contractual downside protection given low to moderate loan-to-ship values, historically low asset values and first lien, senior securities structures.

Impairment of financial assets

At least monthly, in respect of the mortgages and quarterly, in respect of the commercial loans managed by Crown, we assess whether there is objective evidence that loans and receivables are impaired, having occurred after the initial recognition of the asset and prior to the period-end that have adversely impacted the estimated future cash flows of the asset. The criteria that we use to determine that there is objective evidence of an impairment loss include: significant financial difficulty of the borrowing entity; a breach of contract; and we, as lender, for economic or legal reasons relating to the borrower's financial difficulty, grant (directly or indirectly) to the borrower a concession that the lender would not otherwise consider.

Non-performing loans and the resolution of such loans are a normal, ongoing part of the business. In general, loan pricing takes into account the fact that a small percentage of loans will have a period of non-performance. While MarshallZehr, as Mortgage Administrator, Crown and EnTrustPermal, as Specialty Investment Managers aim to collect all indebtedness on mortgage loans and commercial loans respectively, however there are instances where borrowers encounter circumstances when the collection and/or timing of principal repayments and interest payments becomes unclear. For these non-performing loans, interest accrued into revenues is discounted, if such loans are partly performing, or eliminated, if such loans are not performing, thereby resulting in a lower return on the portfolio. Resolving non-performing loans to maximize value is not typically an expedient process and takes patience, experience and capital.

As at June 30, 2018, we recognized that four mortgages (compared to three mortgages at the end of 2017 and two mortgages in 2016) have objective evidence of financial difficulty and from the date of recognition, classified these mortgages as non-performing loans, with their mortgage interest accrued into revenue being discounted by way of creating a specific allowance.

MarshallZehr has been actively and successfully engaged in the recovery processes, including the provision of additional financing by way of Court Ordered debtor-in-possession facilities, pursuant to the Companies' Creditors Arrangement Act. MarshallZehr continues to advise us to expect full recovery of the non-performing mortgages but until all objective evidence of impairment is removed, the specific allowances on these mortgages remain a modest drag on the portfolio's return. Mortgage loans through MarshallZehr are valued at amortized cost (principal plus accrued interest less an allowance for expected credit losses), which approximates their fair value due to their short term nature.

Crown, as a Specialty Investment Manager, conducts its own quarterly review of the loans it manages and provides us with that assessment. Private securities are valued based upon the value of the underlying components. For example, an investment made by Crown that includes both debt and equity will value the debt component as one security and the equity component as a second security. Upon inception of an investment, the two components shall be equal to the consideration provided by Crown exclusive of market rate financing fees and transaction expenses. The loan component will be valued by a discounted cash flow method taking into account current market interest rates and other spread premiums. The discount rate shall be the sum of the following components:

(I) Benchmark yield: for Canadian loans, this is the on-the-run Government of Canada bond with equivalent duration. For U.S. loans, this is the on-the-run U.S. Treasury with equivalent duration.

(II) Credit spread: this is the Canadian or U.S. 'BBB' rated corporate spread index of equivalent duration.

(III) Excess credit spread: this is determined by Crown at the inception of the loan and fluctuates over time as these spreads are observed by Crown in the marketplace.

(IV) Excess illiquidity spread: this is determined by Crown at the inception of the loan and fluctuates over time as these spreads are observed by Crown in the marketplace.

Crown conducts internal valuations monthly and provides quarterly valuations to us. Crown hopes to provide us with monthly valuations in the future, however Crown has agreed it would notify us in between submission of a quarterly report to the Manager, should it consider there to be a material issue to warrant an impairment.

EnTrustPermal, as a Specialty Investment Manager, provides a quarterly NAV per unit. They have appointed Citco Fund Services (Ireland) Limited to act as an external valuer to value Level 1 and certain Level 2 securities of Blue Ocean (for an explanation of Fair Value Levels 1, 2 and 3 please refer to the Notes to Financial Statements, Section 5 (c) Fair value of financial instruments). Level 3 securities, being mainly the loans, lease portfolios and similar investments within Blue Ocean will be valued by EnTrustPermal with the assistance of one or more specialist maritime pricing providers, in accordance with fair value accounting principles. Under U.S. Accounting Standards Codification 820 Fair Value Measures and Disclosures (the Code), EnTrustPermal is required to fair value including an impairment/expected credit loss.

Measurement of credit risk via 'Expected Credit Loss (ECL)'

At least annually we will estimate the expected credit loss (formerly termed 'collective and specific allowance') attributable to the portfolio of mortgages and loans based on probabilities of inherent losses that are as yet unidentified. The approach adopted is 'Expected Credit Loss', a methodology which performs a quantitative calculation of the ECL to arrive at a probable quantitative value of the overall ECL. This methodology is similar to regulatory capital calculations already employed by banks and so represents the industry's regulatory standard.

The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of the credit risk to which the portfolio of mortgages (and separately loans) is exposed, from the level of individual borrowers up to the total portfolio. The key building blocks of this process are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

For example, the portfolio of mortgages can assign an ECL over the next 12 months to each borrower by multiplying these three factors. A PD is calculated by assessing the credit quality of borrowers. For illustration purposes, suppose a borrower has a 4% probability of defaulting over a 12-month period.

The EAD is our estimate of what the outstanding balance will be if the borrower does default. Suppose the current balance is $100,000, our models might predict a rise to $110,000 by the time the borrower defaults. Should borrowers default, some part of the exposure is usually recovered. The part that is not recovered, together with the costs associated with the recovery process, comprise the LGD, which is expressed as a percentage of EAD. Suppose the LGD in this case is estimated to be 20%, the ECL for this borrower is then calculated as 4% x $110,000 x 20% which is $880 (i.e. 0.88% of the outstanding balance).

To calculate PD, the Manager assesses the credit quality of borrowers and utilizes publicly available risk default data to help determine both point in time and through-the-cycle estimations of PD. When assessing EAD the portfolio anticipates mortgages to be fully drawn and for the purposes of assessing the LGD, the portfolio makes adjustments to account for the increased losses experienced under downturn conditions.

Based on this ECL methodology, we have conducted regular assessments and have assigned a ECL/collective loan loss provision attributable to the mortgage portfolio holdings. As at June 30, 2018, we have assigned an overall rate of 1.50% on the outstanding balances in the mortgage portfolio and an ECL equal to 1.01% of the principal balance of the commercial loans through Crown Partner Funding in the portfolio. In both the ECL for mortgages and loans, we recognize that such related losses have yet to be identified. These ECL allowances are a deduction from the calculated NAV and the distributions from the Fund are paid after deducting the ECL. As Blue Ocean is required to recognize an impairment/expected credit loss under the Code, we make no additional allowance.

We believe our approach towards ECLs is in harmony with International Financial Reporting Standards, IFRS 9, which became effective January 1, 2018, namely that we are setting aside collective provisions on performing and 'watch listed' loans, so establishing coverage of credit risk based on expected losses.

Notes

1. Source: www.blackrock.com/ca/individual/en/products/239491/ishares-canadian-short-term-bond-index-etf.

The iShares Core Canadian Short Term Bond Index ETF seeks to replicate the performance of the FTSE TMX Canada Short Term Bond Index, net of expenses. The iShares Core Canadian Short Term Bond Index ETF includes bonds with remaining effective terms greater than 1 year and less than or equal to 5 years. The iShares Core Canadian Short Term Bond Index ETF is designed to be a broad measure of the Canadian investment-grade fixed income market

2. The IRR is the discount rate that makes the net present value of a series of cash flows equal to zero.

3. The Impact of Corporate Sustainability on Organizational Processes and Performance, Robert G. Eccles, Ioannis Ioannou, and George Serafeim, Management Science, Forthcoming

4. Corporate Sustainability and Shareholder Wealth, Fernando Gómez-Bezares, Wojciech Przychodzen and Justyna Przychodzen, March 16, 2016

5. What Does the Paris Agreement Do for Finance?, World Resources Institute, December 18, 2015, http://www.wri.org/blog/2015/12/what-does-paris-agreement-do-finance

6. COP21 climate change summit reaches deal in Paris, BBC News, Dec 13, 2015, http://www.bbc.com/news/science-environment-35084374

7. European Investment Bank, http://www.eib.org/about/key_figures/data.htm

8. Investment Allocation is less other net assets. Other net assets include cash, subscriptions receivable, borrowing and/or working capital.

9. Remaining term as of breakdown date for mortgages and commercial loans.

10. Earnings before interest, taxes, depreciation and amortization.

Sources: Unless noted, information has been compiled from various sources including corporate documents, press releases, annual reports, offering documents and public news articles of MarshallZehr Group Inc., Crown Capital Partners Inc., EnTrustPermal Ltd., European Investment Bank, GEEREF, Thomson Reuters and company websites.

Management's Responsibility for Financial Reporting

The accompanying financial statements of Portland Private Income Fund (the Fund) have been prepared and approved by Portland Investment Counsel Inc. in its capacity as the manager (the Manager) of the Fund. The Manager is responsible for the information and representations contained in these financial statements. The Board of Directors of the Manager, in its capacity as trustee of the Fund, approved these financial statements.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 to these financial statements.

"Michael Lee-Chin"

Michael Lee-Chin
Director
August 23, 2018

"Robert Almeida"

Robert Almeida
Director
August 23, 2018

These financial statements have not been reviewed by an independent auditor.

Statements of Financial Position (unaudited)

	As at June 30, 2018	As at December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 77,686	$ 234,919
Subscriptions receivable	1,926,400	1,587,871
Receivable for investments sold	15,000	-
Interest receivable	686,612	576,911
Investments (note 5)	87,965,477	77,225,703
	90,671,175	79,625,404
Liabilities		
Current Liabilities		
Management fees payable	80,880	36,041
Service fees payable	36,606	14,214
Expenses payable	32,923	29,129
Redemptions payable	577,111	15,755
Payable for investments purchased	1,044,000	1,526,000
Distributions payable	227,099	201,159
	1,998,619	1,822,298
Net Assets Attributable to Holders of Redeemable Units	$ 88,672,556	$ 77,803,106
Net Assets Attributable to Holders of Redeemable Units Per Series		
Series FP	30,000	-
Series A	20,352,960	16,150,404
Series F	68,286,797	61,650,027
Series O	2,799	2,675
	$ 88,672,556	$ 77,803,106
Number of Redeemable Units Outstanding (note 6)		
Series FP	3,000	-
Series A	415,641	328,552
Series F	1,364,682	1,229,242
Series O	58	55
Net Assets Attributable to Holders of Redeemable Units Per Unit		
Series FP	10.00	-
Series A	48.97	49.16
Series F	50.04	50.15
Series O	48.35	48.53

Approved by the Board of Directors of Portland Investment Counsel Inc.

"Michael Lee-Chin" — Director

"Robert Almeida" — Director

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

Statements of Comprehensive Income (unaudited)

For the periods ended June 30,	2018	2017
Income		
Net gain (loss) on investments		
Interest for distribution purposes	$ 230,433	$ 227,749
Net realized gain (loss) on investments	2,258	-
Change in unrealized appreciation (depreciation) on investments	3,600,995	2,346,008
Total income (net)	3,833,686	2,573,757
Expenses		
Management fees (note 8)	231,243	165,892
Service fees (note 8)	100,256	69,778
Unitholder reporting costs (note 8)	50,033	100,478
Mortgage administration fees	23,289	24,450
Impairment (gain) loss (note 5)	16,446	94,121
Audit fees	12,302	9,882
Independent review committee fees	1,455	1,736
Custodial fees	229	521
Legal fees	211	203
Total operating expenses	435,464	467,061
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	$ 3,398,222	$ 2,106,696
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Series		
Series FP	-	-
Series A	657,506	388,004
Series F	2,740,592	1,718,590
Series O	124	102
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit		
Series FP	-	-
Series A	1.81	1.58
Series F	2.14	1.89
Series O	2.21	2.01

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

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (unaudited)

For the periods ended June 30,	2018	2017
Net Assets Attributable to Holders of Redeemable Units at Beginning of Period		
Series FP	$ -	$ -
Series A	16,150,404	10,731,905
Series F	61,650,027	41,171,223
Series O	2,675	2,463
	77,803,106	51,905,591
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units		
Series FP	-	-
Series A	657,506	388,004
Series F	2,740,592	1,718,590
Series O	124	102
	3,398,222	2,106,696
Distributions to Holders of Redeemable Units		
From net investment income		
Series FP	-	-
Series A	(640,746)	(492,174)
Series F	(2,387,850)	(2,041,512)
Series O	(90)	(121)
	(3,028,686)	(2,533,807)
From return of capital		
Series FP	-	-
Series A	(82,770)	-
Series F	(492,896)	-
Series O	(43)	-
	(575,709)	-
Net Decrease from Distributions to Holders of Redeemable Units	(3,604,395)	(2,533,807)
Redeemable Unit Transactions		
Proceeds from redeemable units issued		
Series FP	30,000	-
Series A	4,332,475	3,321,065
Series F	6,032,781	10,674,282
Series O	-	-
	10,395,256	13,995,347
Reinvestments of distributions		
Series FP	-	-
Series A	579,522	384,626
Series F	1,728,924	1,240,976
Series O	133	121
	2,308,579	1,625,723
Redemptions of redeemable units		
Series FP	-	-
Series A	(643,431)	(634,391)
Series F	(984,781)	(347,856)
Series O	-	-
	(1,628,212)	(982,247)
Net Increase (Decrease) from Redeemable Unit Transactions	11,075,623	14,638,823
Net Assets Attributable to Holders of Redeemable Units at End of Period		
Series FP	30,000	-
Series A	20,352,960	13,699,035
Series F	68,286,797	52,415,703
Series O	2,799	2,565
	$ 88,672,556	$ 66,117,303

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

Statements of Cash Flows (unaudited)

For the periods ended June 30,	2018	2017
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	$ 3,398,222	$ 2,106,696
Adjustments for:		
Net realized (gain) loss on investments	(2,258)	-
Change in unrealized (appreciation) depreciation on investments	(3,600,995)	(2,346,008)
Impairment (gain) loss	16,446	94,121
(Increase) decrease in interest receivable	(109,701)	(117,306)
Increase (decrease) in management fees, service fees and expenses payable	71,025	(63,842)
Purchase of investments	(8,149,967)	(14,652,999)
Proceeds from sale of investments	500,000	243,809
Net Cash Generated (Used) by Operating Activities	(7,877,228)	(14,735,529)
Cash Flows from Financing Activities		
Distributions to holders of redeemable units, net of reinvested distributions	(1,269,876)	(919,661)
Proceeds from redeemable units issued	9,774,696	15,996,102
Amount paid on redemption of redeemable units	(784,825)	(341,439)
Net Cash Generated (Used) by Financing Activities	7,719,995	14,735,002
Net increase (decrease) in cash and cash equivalents	(157,233)	(527)
Cash and cash equivalents - beginning of period	234,919	9,446
Cash and cash equivalents - end of period	77,686	8,919
Cash and cash equivalents comprise:		
Cash at bank	$ 77,686	$ 8,919
From operating activities:		
Interest received, net of withholding tax	$ 120,732	$ 110,443
From financing activities:		
Distributions paid	$ 1,269,876	$ 919,661

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

Schedule of Investment Portfolio (unaudited)

as at June 30, 2018

No. of Units	Description	Cost	Fair Value	% of Net Assets Attributable to Holders of Redeemable Units
UNDERLYING FUNDS				
Canada				
1,149,126	Portland Private Income LP Class B	$ 72,933,797	$ 85,869,802	96.8%
MORTGAGES				
Canada				
	Private Mortgage Loans (note 5)	2,596,816	2,095,675	2.4%
		$ 75,530,613	87,965,477	99.2%
	Other assets less liabilities		707,079	0.8%
	NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS		$ 88,672,556	100.0%

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

1. GENERAL INFORMATION

Portland Private Income Fund (the Fund) is an open-ended trust established by Portland Investment Counsel Inc. (the Trustee and Manager) as trustee under the laws of the Province of Ontario pursuant to a master declaration of trust dated as of December 13, 2013, as amended thereafter and as may be amended and restated from time to time (Declaration of Trust). The Fund commenced operations on January 7, 2013. The Trustee is a corporation formed under the laws of Ontario. The registered office of the Fund is 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7. These financial statements are presented in Canadian dollars and were authorized for issue by the Board of Directors of the Manager on August 23, 2018. The financial statements of Portland Private Income LP (the Partnership or Underlying Fund) are included in Appendix A and are to be read in conjunction with these financial statements.

Effective June 8, 2018, the Fund amended [and restated] its Declaration of Trust in order to create preferred units (Preferred Units) in two series – Series AP and Series FP.

The investment objectives of the Fund are to preserve capital and provide income and above average long-term returns. Although the Fund intends to achieve its investment objective by investing all, or substantially all, of its net assets in the Partnership, the Manager may from time to time determine that the investment objective of the Fund can be best achieved through direct investment in underlying securities and/or investment in other pooled investment vehicles. To the extent the Fund makes direct investments, it will apply the investment strategies of the Partnership. The investment objective of the Partnership is to preserve capital and provide income and above average long-term returns by investing primarily in a portfolio of private debt securities.

The statements of financial position of the Fund are as at June 30, 2018 and December 31, 2017. The statements of comprehensive income, changes in net assets attributable to holders of redeemable units, and cash flows of the Fund are for the six-month periods ended June 30, 2018 and June 30, 2017.

2. BASIS OF PRESENTATION

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

The Fund has adopted IFRS 9 – Financial Instruments (IFRS 9) for the first time in these financial statements. IFRS 9 replaced International Accounting Standard 39 (IAS 39) and provides a new framework for classification and measurement of financial assets and liabilities, as well as new standards for hedge accounting. The Fund does not have arrangements in place which meet the criteria for hedge accounting, so those aspects of the standard have not been applied in these financial statements.

The date of initial application for the new classification and measurement standards in IFRS 9 is January 1, 2018. In accordance with the standard, comparative information has not been restated. There were no changes in measurement attributes for any of the financial assets and liabilities held by the Fund as at January 1, 2018, however, some of the classifications have changed compared to the previous classification under IAS 39. The impact of the change in classification will be illustrated alongside the following note disclosures where applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(a) Classification

The Fund classifies financial assets based on the business model used for managing such financial assets and the contractual cash flow characteristics of those financial assets. Where contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test) the financial asset will be classified as a financial asset at amortized cost. Cash, short term commercial paper, short term receivables and mortgage loans have been classified as financial assets at amortized cost. Equities, options, currency forward contracts and other investment funds do not meet the SPPI test and therefore have been classified as financial assets at fair value through profit and loss (FVTPL). Bonds have been designated as financial assets at FVTPL.

The Fund's obligation for net assets attributable to holders of redeemable units does not meet the criteria for equity treatment and is therefore presented as a liability on the statements of financial position. The Fund has elected to classify its obligation for net assets attributable to holders of redeemable units as a financial liability at FVTPL.

All remaining liabilities of the Fund are classified as financial liabilities at amortized cost and are reflected at the amount required to be paid, discounted to reflect the time value of money when appropriate.

The Fund's accounting policies for measuring its investments are similar to those used in measuring its net asset value (NAV) for unitholder transactions except for transaction costs and fee revenue on financial assets at amortized cost. Such amounts are fully recognized at initial recognition for NAV purposes but are deferred and amortized for financial statement purposes. It is expected that net assets attributable to holders of redeemable units will be the same in all material respects as the NAV per unit used in processing unitholder transactions.

Financial assets and liabilities may be offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Fund may enter into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy, certain events of default or termination of the contracts.

(b) Recognition, de-recognition and measurement

Purchases and sales of financial assets are recognized on their trade date - the date on which the Fund commits to purchase or sell the investment. Financial assets and liabilities are initially recognized at fair value. Transaction costs incurred to acquire financial assets at FVTPL are expensed as incurred in the statements of comprehensive income. Subsequent to initial recognition, all financial assets and liabilities at FVTPL are measured at fair value. Unrealized gains and losses arising from changes in fair value of the FVTPL category are presented in the statements of comprehensive income within 'change in unrealized appreciation (depreciation) on investments' in the period in which they arise. Financial assets at amortized cost are subsequently measured at amortized cost, less any impairment losses as described below. Transaction costs incurred and fee revenues earned are accounted for in the same manner as a discount or premium and are amortized over the life of the asset or liability.

Financial assets are de-recognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all the risks and rewards of ownership. Upon disposal, the difference between the amount received and the average cost to acquire the financial asset (for financial assets at FVTPL) or the amortized cost (for financial assets at amortized cost) is included within 'net realized gain (loss) on investments' in the statements of comprehensive income.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The Fund utilizes the last traded market price for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value. If a significant movement in fair value occurs subsequent to the close of trading up to 4:00 pm Toronto, Canada time on the reporting date, valuation techniques will be applied to determine the fair value. A significant event is any event that occurs after the last market price for a security, close of market or close of the foreign exchange, but before the Fund's valuation time that materially affects the integrity of the closing prices for any security, instrument, currency or securities affected by that event so that they cannot be considered 'readily available' market quotations.

The fair value of financial assets and liabilities that are not traded in an active market (for example, privately held securities) is determined using valuation techniques.

Revenue recognition

'Interest for distribution purposes' shown on the statements of comprehensive income represents the stated rate of interest earned by the Fund on fixed income securities, accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities, unless they are classified as financial assets at amortized cost, in which case the discount or premium is amortized on a straight line basis, which approximates the effective interest method.

Interest receivable is shown separately in the statements of financial position based on the debt instruments' stated rates of interest. Dividends on equity investments and distributions on investments in other investment funds are recognized as income on the ex-dividend date.

Impairment of financial assets at amortized cost

The Manager estimates the amount of expected credit losses (ECLs) on the Fund's financial assets at amortized cost at each reporting date. The amount of the ECL is deducted from the carrying amount of investments on the statements of financial position. Changes in the ECL from the previous reporting date are included as 'impairment (gain) loss' on the statements of comprehensive income. Refer to note 5 *Credit Risk* for information on ECLs.

Cash and cash equivalents

The Fund considers liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash is comprised of deposits with a Canadian custodian.

Cost of investments

The cost of financial assets at FVTPL represents the average cost for each security excluding transaction costs. The cost of each investment is determined on an average basis by dividing the total cost of such investment by the total number of shares purchased. The cost of financial assets at amortized cost includes transaction costs, as well as the amortization of any premium or discount since initial recognition. On the schedule of investment portfolio, transaction costs have been deducted in aggregate from the total cost of individual investments which include transaction costs.

Redeemable Units

The Fund has issued three series of common units (Common Units) and two series of Preferred Units which are redeemable monthly at the holder's option upon 60 days' notice. Redeemable units are issued and redeemed based on the Fund's NAV per unit at the time of issue or redemption. For purposes of determining NAV used for issuing and redeeming units, the Fund's investments are valued based on fair value.

The redeemable units do not have identical rights and therefore do not meet the test for equity treatment. Such units are considered financial liabilities, have been designated at FVTPL by the Fund and are included at the redemption amount payable at the statement of financial position date as if the holders exercised their right to redeem units. Refer to note 6 for additional details about the redeemable units.

Expenses

Expenses of the Fund including management fees and other operating expenses are recorded on an accrual basis.

Transaction costs associated with investment transactions, including brokerage commissions, have been expensed on the statements of comprehensive income for financial assets and liabilities at FVTPL.

Organization expenses

In accordance with its offering documents, initial organization expenses in the amount of $36,553 (excluding applicable taxes, such as Harmonized Sales Tax (HST)), which includes legal and registration fees associated with the formation of the Fund, are recoverable by the Manager from the Fund. The Fund was required to re-pay the Manager over three years commencing in 2014 and completed its payments at the end of 2016. Organization expenses are included as 'organization expenses' on the statements of comprehensive income as they are repaid.

During the period ended June 30, 2018, additional organization expenses in the amount of $28,450 (excluding applicable taxes, such as HST) were incurred for the issuance of Preferred Units. The Fund is required to re-pay this amount to the Manager over five years commencing the month following the first issuance of Preferred Units or January 31, 2019, whichever occurs last.

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

'Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit' in the statements of comprehensive income represents the Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Series, divided by the weighted average units outstanding of that series during the reporting period.

Distribution to Unitholders

Distributions will be made to unitholders only at such times and in such amounts as may be determined at the discretion of the Manager. The Fund is required to distribute sufficient net income and realized capital gains so that it does not have to pay ordinary income tax. All distributions by the Fund on Series A, Series F, Series O, Series AP and Series FP Units will be automatically reinvested in additional units of the same series of the Fund held by the investor at the NAV per unit thereof, unless the investor notifies the Manager in writing that cash distributions are preferred. Distributions on Series AP and Series FP are cumulative such that distributions cannot be paid on Series A, Series F and Series O if distributions on Series AP and Series FP are in arrears.

Allocation of income and expense, and realized and unrealized gains and losses

Management fees and other costs directly attributable to each series of common units are charged to that series. The Fund's shared operating expenses, income, and realized and unrealized gains and losses are generally allocated proportionately to each series of Common Units based upon the relative NAV of each series.

Future accounting changes

New standards, amendments and interpretations effective after January 1, 2018 and that have not been early adopted

There are no new accounting standards effective after January 1, 2018 which affect the accounting policies of the Fund.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Fair value of securities not quoted in an active market

The fair value of such securities not quoted in an active market may be determined by the Fund using reputable pricing sources (such as pricing agencies) or indicative prices. Such values may be indicative and not executable or binding. The Fund would exercise judgement and estimates on the quantity and quality of pricing sources used. 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 inputs into these models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Classification of financial assets and liabilities

Financial assets may be classified as financial assets at amortized cost, financial assets at FVTPL or financial assets at fair value through other comprehensive income. Financial liabilities may be classified as financial liabilities at amortized cost or financial liabilities at FVTPL. In order to classify its financial assets and liabilities in accordance with IFRS 9, the Manager uses judgment to assess the business model of the Fund and the cash flows of its financial assets and liabilities. The classification of financial assets and liabilities of the Fund are outlined in note 3.

5. FINANCIAL INSTRUMENTS

a) Categorization of financial instruments

The following tables present the carrying amounts of the Fund's financial instruments by category as at June 30, 2018:

Assets	Financial assets at FVTPL ($)	Financial assets at amortized cost ($)	Total ($)
Cash and cash equivalents	-	77,686	77,686
Subscriptions receivable	-	1,926,400	1,926,400
Receivable for investments sold	-	15,000	15,000
Interest receivable	-	686,612	686,612
Mortgage investments	-	2,095,675	2,095,675
Underlying Funds	85,869,802	-	85,869,802
Total	**85,869,802**	**4,801,373**	**90,671,175**

Liabilities	Financial liabilities at FVTPL ($)	Financial liabilities at amortized cost ($)	Total ($)
Management fees payable	-	80,880	80,880
Service fees payable	-	36,606	36,606
Expenses payable	-	32,923	32,923
Redemptions payable	-	577,111	577,111
Payable for investments purchased	-	1,044,000	1,044,000
Distribution payable	-	227,099	227,099
Net assets attributable to holders of redeemable units	88,672,556	-	88,672,556
Total	**88,672,556**	**1,998,619**	**90,671,175**

The following table presents the changes to the opening categories of financial instruments as at December 31, 2017 due to adoption of IFRS 9:

Financial Assets	Financial assets at FVTPL ($)	FVTPL designated at inception ($)	Financial assets at amortized cost ($)	Loans & receivables ($)	Total ($)
Opening Balance – under IAS 39	-	**74,613,581**	-	**5,011,823**	**79,625,404**
On the basis of change from IAS 39 to IFRS 9:					
Reclassification of loans and receivables	-	-	5,011,823	(5,011,823)	-
Reclassification of designated FVTPL assets to those that must be FVTPL	74,613,581	(74,613,581)	-	-	-
Opening balance – under IFRS 9	**74,613,581**	-	**5,011,823**	-	**79,625,404**

b) Risks associated with financial instruments

The Fund's investment activities may be exposed to various financial risks, including market risk (which includes price risk, interest rate risk and currency risk), liquidity risk and credit risk. The Fund invests in the Partnership which invests in other funds and is therefore susceptible to the market risk arising from uncertainties about future values of the Underlying Funds. The Manager makes investment decisions after an extensive assessment of the Underlying Fund, its strategy and the overall quality of the Underlying Fund's manager. All of the Underlying Funds and their underlying investments are subject to risks inherent in their industries. In the case of the Underlying Funds, established markets do not exist for these holdings, and are therefore considered illiquid. The Fund is therefore indirectly exposed to each financial risk of the respective Underlying Fund in proportion to its investments in such Underlying Fund. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's investment objectives and risk tolerance per the Fund's offering documents. All investments result in a risk of loss of capital.

Price risk

Price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk). 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, 2018 and December 31, 2017, the Fund did not have significant direct exposure to price risk.

Interest rate risk

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

This risk is managed by investing in short-term mortgages. As a result, the credit characteristics of the Fund's mortgages will evolve such that in periods of higher market interest rates, the Fund's mortgages will be those with narrower credit spreads, and vice versa in periods of lower market interest rates, compared to other benchmark rates.

As of June 30, 2018 and December 31, 2017, the Fund's mortgage investments are in fixed rate, short-term mortgages. The Fund generally intends to hold all of its mortgages to maturity. There is a very limited secondary market for the Fund's mortgages and in syndication transactions such as the ones in which the Fund participates, these mortgages are generally traded at face value without regard to changes in interest rates.

The following is a summary of the carrying value (principal minus allowance for expected credit loss) of mortgage investments segmented by gross interest rate (before deduction of mortgage administration fees) as at June 30, 2018 and December 31, 2017:

	0% - 11.99% ($)	12% - 12.99% ($)	13% - 13.99% ($)	14% - 14.99% ($)	Total ($)
June 30, 2018	1,665,359	-	-	430,316	2,095,675
December 31, 2017	2,187,988	-	-	424,134	2,612,122

The following is a summary of the carrying value (at amortized cost) of mortgage investments segmented by term as at June 30, 2018 and December 31, 2017:

	12 months or less ($)	13 to 24 months ($)	Total ($)
June 30, 2018	2,095,675	-	2,095,675
December 31, 2017	2,137,314	474,808	2,612,122

The Fund's balances of receivables and payables have no exposure to interest rate risk due to their short term nature.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Securities included in the Fund may be valued in or have exposure to currencies other than the Canadian dollar and when measured in Canadian dollars, be affected by fluctuations in the value of such currencies relative to the Canadian dollar.

As at June 30, 2018 and December 31, 2017, the Fund did not have significant exposure to currency risk.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund's exposure to liquidity risk is concentrated in the cash redemption of its Units. The Fund provides investors with the right to redeem Units monthly upon 60 days' notice in advance of the redemption date. Such redemptions are to be paid within 30 days following the redemption date.

The Fund makes investments in private mortgage loans or the Underlying Fund that are not traded in an active market and may not be redeemable. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at amounts which approximate their fair values. The Fund has the ability to borrow for the purposes of making investments, providing cover for the writing of options, paying redemptions, working capital purposes and to maintain liquidity in accordance with its investment objective and investment strategies.

All payables of the Fund were due within 3 months from the financial reporting date. Issued redeemable units are payable on demand.

Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

The Fund invests a significant portion of its assets in private mortgage loans which are subject to credit risk. Any instability in the real estate sector and adverse change in economic conditions in Canada could result in declines in the value of real property securing the Fund's mortgage investments.

The Fund's credit risk management objectives are to:

- establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles; and
- identify, assess and measure credit risk clearly and accurately across the Fund, from the level of individual mortgages or commercial loans up to the total portfolio.

Credit risk is managed by adhering to the investment and operating policies, as set out in the Fund's offering documents. This includes the following strategies:

- the majority of mortgages are generally expected to be written for terms of 6 to 36 months and supported by commercial liability insurance and by personal or corporate guarantees; and
- the portfolio of mortgages is generally expected to be written for principal amounts at the time of commitment (together with the principal balance outstanding on prior mortgages if applicable), not exceeding 75% of the determined value of the underlying property securing the mortgage.

Such risks are further mitigated by ensuring a comprehensive due diligence process is conducted on each mortgage prior to funding. This process generally includes, but is not limited to, reviewing legal documentation, independent appraiser's valuations and credit checks and financial statement reviews on prospective borrowers.

Expected Credit Losses

IFRS 9 includes a framework for assessing and accounting for losses on financial assets at amortized cost due to credit impairment. At each reporting date, the Manager performs an assessment of credit risk on its portfolio of mortgage loans. ECLs are estimated and reflected as a reduction to the carrying amount of the Fund's mortgage loan portfolio (Mortgage Portfolio).

The Mortgage Portfolio is grouped into three categories or stages, as described below.

Stage 1 - Performing

There has been no significant change in credit risk on the loan (or the loan was and still is in the low credit risk category) since initial recognition. The expected credit loss (ECL) rate, as determined above, is multiplied by the aggregate principal plus accrued interest of all Stage 1 loans to reduce the carrying amount.

Stage 2 – Non performing

When a particular Stage 1 mortgage or commercial loan moves to Stage 2 (see the section below entitled "Determination of significant changes in credit risk") a lifetime ECL is applied on that individual loan. The lifetime ECL is determined using LTV, information from the third party mortgage administrator or investment manager as well as historical experience in similar situations. A range of possibilities is considered and the probable value of the recovery amount determines the amount of the ECL. Typically, the ECL is ratably higher than the ECL on Stage 1 assets to reflect the increase in credit risk.

Stage 3 – Default

If the Manager believes that a mortgage or commercial loan is in default, an allowance specific to that loan will be determined based on an assessment of the expected loss over the lifetime of the loan. A range of possibilities is considered and the probable value of the recovery amount determines the amount of the lifetime ECL. Typically, the lifetime ECL is ratably higher than the ECL on Stage 1 or Stage 2 assets to reflect the increase in credit risk.

For mortgages in Stage 1, an ECL percentage rate is applied to the total carrying value of all mortgage loans that are in Stage 1. The ECL percentage rate is determined by calculating an ECL (in dollars) for each loan in the Mortgage Portfolio and dividing the aggregate ECL by the total value of such loans, excluding the ECL.

As detailed in the Commentary, ECL is calculated by applying the following formula:

Expected credit loss = Exposure at Default (EAD) x Loss Given Default (LGD) x Probability of Default (PD)

EAD is the estimate of what the outstanding balance will be at the time of default, if the borrower does default, including time to resolve the default. LGD is the unrecovered part of EAD if there is a default requiring recovery of collateral or payments under a guarantee. PD is the probability that a borrower will default prior to the maturity of the loan.

For mortgages in Stage 2 or Stage 3, the ECL is determined based on the Manager's best estimate of the ECL over the lifetime of the loan.

The Fund considers a borrower to be in default when the first of (i) a failure to pay interest or principal on a loan more than 90 days after the payment is due and either the loan-to-cost (LTC) or loan-to-value (LTV) covenant is breached or (ii) bankruptcy filing or receivership, occurs. The Manager believes that more than 90 days and either a LTC or LTV covenant breach is a reasonable definition of default based on its previous experience in the mortgage and commercial loan industry. Loans will be written off when there is no reasonable prospect of recovering any further cash flows from the financial asset.

The following tables present the breakdown of the Mortgage Portfolio into Stages and the respective ECL as at June 30, 2018 and December 31, 2017:

June 30, 2018	Number of Loans	Principal and Accrued Interest ($)	ECL Amount ($)	ECL Rate
Stage 1	3	1,997,568	(29,950)	1.5%
Stage 2	-	-	-	-
Stage 3	2	1,285,860	(471,191)	36.6%
Total	**5**	**3,283,428**	**(501,141)**	

December 31, 2017	Number of Loans	Principal and Accrued Interest ($)	ECL Amount ($)	ECL Rate
Stage 1	3	1,930,755	(56,378)	1.5%
Stage 2	-	-	-	-
Stage 3	3	1,742,986	(428,330)	36.6%
Total	**6**	**3,673,741**	**(484,708)**	

During the period ended June 30, 2018, a mortgage loan was moved out of Stage 3 because it was repaid in full. The recovered amount is included as 'impairment (gain) loss' on the statements of comprehensive income.

Determination of significant changes in credit risk

The Manager compares the risk of a default occurring as at the reporting date with the risk of a default occurring on a financial instrument as at the date of initial recognition using reasonable and supportable information that is available without undue cost. The Manager may assume that the credit risk of a private mortgage loan has not changed significantly if it is determined to have low credit risk at the reporting date. The Manager looks at the following factors to assess whether credit risk has increased (or decreased) since initial recognition:

- Increases in LTC and/or LTV on particular loans;
- Events/delays in construction or intentions that are a significant deviation from planned activities;
- Missed interest or principal payments; and
- Degradation of the financial position of the borrower, including its guarantors.

LTV ratios are updated using forward-looking information whenever it is available via periodic updates from the third party investment manager/ mortgage administrator on the status of projects and collateral underlying the loans. LTC and LTV ratios that exceed 90% and 85%, respectively are viewed as a sign that the mortgage may be put on a watch list for potential changes in credit risk. This will depend on how close a project is to completion (in the case of development/construction projects) and other qualitative factors.

The assessment may include an evaluation of the monitoring steps being taken by the third party investment manager/mortgage administrator which can be a sign of a change in credit risk.

The maximum direct exposure to credit risk at June 30, 2018 is calculated as the face value of the private mortgage loans plus the accrued interest thereon less any ECLs, which totaled $2,782,287 (December 31, 2017: $3,189,033). The Fund has recourse under the terms of the private mortgage loans in the event of default by the borrower, in which case the Fund would have a claim against the underlying property and security.

The following is a summary of the private mortgage loans held by the Fund as at June 30, 2018:

	Number of Mortgages	Carrying Value ($)	Carrying Value + Accrued Interest ($)
First Mortgages	5	2,095,675	2,782,287
Total	**5**	**2,095,675**	**2,782,287**

The following is a summary of the private mortgage loans held as at December 31, 2017:

	Number of Mortgages	Carrying Value ($)	Carrying Value + Accrued Interest ($)
First Mortgages	6	2,612,122	3,189,033
Total	**6**	**2,612,122**	**3,189,033**

The following is a summary of the Mortgage Portfolio segmented by type of project as at June 30, 2018 and December 31, 2017:

	Pre-development/ Construction ($)	Construction ($)	Term ($)	Total ($)
June 30, 2018	302,637	764,108	1,028,930	2,095,675
December 31, 2017	802,564	798,668	1,010,890	2,612,122

c) Fair value of financial instruments

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the inputs used to perform each valuation. The fair value hierarchy is made up of the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 - inputs are unobservable for the asset or liability.

The fair value hierarchy requires the use of observable market data each time such data exists. A financial instrument is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value. Private mortgage loans are not classified as FVTPL and therefore are not included in the summary below.

The following table illustrates the classification of the Fund's financial instruments within the fair value hierarchy as at June 30, 2018:

	Assets at fair value as at June 30, 2018			
	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Underlying Fund	-	85,869,802	-	85,869,802
Total	**-**	**85,869,802**	**-**	**85,869,802**

The following tables illustrate the classification of the Fund's financial instruments within the fair value hierarchy as at December 31, 2017:

	Assets at fair value as at December 31, 2017			
	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Underlying Fund	-	74,613,581	-	74,613,581
Total	**-**	**74,613,581**	**-**	**74,613,581**

Fair value is classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, the instrument is reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

d) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

i) restricted activities;

ii) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;

iii) insufficient equity to permit the structured entity to finance its activities without subordinate financial support; and

iv) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Fund considers its investment in the Partnership to be an investment in an unconsolidated structured entity.

The change in fair value of the Partnership is included in the statements of comprehensive income in 'change in unrealized appreciation (depreciation) on investments'.

The Fund's investment in the Partnership is subject to the terms and conditions of its offering document and is susceptible to market price risk arising from uncertainties about future values. The Partnership units are redeemable.

Exposure to the investment in the Partnership at fair value as at June 30, 2018 and December 31, 2017 is disclosed in the following tables. This investment is included at its NAV per unit in financial assets at FVTPL in the statements of financial position. The Manager's best estimate of the maximum exposure to loss from the Fund's investment in the Partnership is the fair value below.

June 30, 2018:

Description	Net asset value of Underlying Fund ($)	Investment at fair value ($)	% of Net Assets attributable to holders of redeemable units
Portland Private Income LP	85,869,878	85,869,802	100.0%

December 31, 2017:

Description	Net asset value of Underlying Fund ($)	Investment at fair value ($)	% of Net Assets attributable to holders of redeemable units
Portland Private Income LP	74,613,653	74,613,581	100.0%

6. REDEEMABLE UNITS

The Fund is permitted to issue an unlimited number of Common Units and a limited number of Preferred Units equivalent to a maximum of 25% of the total assets of the Partnership after giving effect to borrowing, inclusive of any prime brokerage or other borrowing facility. Each unit within a particular series of a class will be of equal value; however, the value of a unit in one series may differ from the value of a unit in another series. Units are issued as fully paid and non-assessable. Each Unit of a series represents an undivided ownership interest in the net assets of the Fund attributable to that series. All Units are entitled to participate in the Fund's liquidation of assets on a series basis.

Preferred Units are issuable and redeemable at the NAV per unit of the applicable series, which is generally $10.00, plus any accrued and unpaid distributions. Common Units are issuable and redeemable at the NAV per unit which is the NAV of the applicable series of Common Units divided by the number of units of the applicable series. The NAV of Common Units is the amount of net assets available after deduction of the NAV and accrued and unpaid distribution attributable to the Preferred Units.

Preferred Units rank ahead of Common Units for payment of distributions and redemptions in the normal course, as well as upon liquidation of the Fund.

The Fund endeavors to invest capital in appropriate investments in conjunction with its investment objectives. The Fund maintains sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments, where necessary.

Units of the Fund are available in multiple series as outlined below. The principal difference between the series of units relates to the distribution policy, management fee payable to the Manager, the compensation paid to dealers and the expenses payable by the series. All units are entitled to participate in the Fund's liquidation of assets on a series basis.

Common Units

Series A Units are available to all investors who meet the eligibility requirements and invest a minimum of $2,500.

Series F Units are available to investors who meet the eligibility requirements and who participate in fee-based programs through their dealer and whose dealer has signed a Series F agreement with the Manager, investors for whom the Fund do not incur distribution costs, or individual investors approved by the Manager. The minimum investment amount for Series F is $2,500.

Series O Units are available to certain institutional or other investors who invest a minimum of $500,000.

Preferred Units

Series AP Units are available to all investors who meet the eligibility requirements and invest a minimum of $5,000.

Series FP Units are available to investors who meet the eligibility requirements and who participate in fee-based programs through their dealer and whose dealer has signed a Series F agreement with the Manager, investors for whom the Fund do not incur distribution costs, or individual investors approved by the Manager. The minimum investment amount for Series FP is $5,000.

The Fund's NAV per unit is determined on the last business day of each month at the close of regular trading on the Toronto Stock Exchange, (each, a Valuation Date) or on such other date as determined by the Manager. Unitholders may redeem their units on any Valuation Date by submitting a request for redemption no later than the day that is 60 days prior to the Valuation Date in order for the redemption to be accepted as at that Valuation Date; otherwise the redemption will be processed as at the next Valuation Date.

If a holder of Common Units redeems his or her units within the first 18 months from initial purchase, the Manager may, in its discretion, charge a redemption penalty equal to 5% of the NAV of such units redeemed which will be deducted from the redemption proceeds and retained by the Fund. If a holder of Common Units redeems his or her units after 18 months to 36 months from initial purchase, the Manager may, in its discretion, charge a redemption penalty equal to 2% of the NAV of such units redeemed which will be deducted from the redemption proceeds and retained by the Fund.

There are no redemption fees applicable to Preferred Units.

The number of units issued and outstanding for the period ended June 30, 2018 was as follows:

	Balance, Beginning of Period	Units Issued Including Switches from Other Series	Units Reinvested	Units Redeemed Including Switches to Other Series	Balance, End of Period	Weighted Average Number of Units
Series FP	-	3,000	-	-	3,000	3,000
Series A	328,552	88,394	11,827	(13,132)	415,641	362,336
Series F	1,229,242	120,565	34,550	(19,675)	1,364,682	1,280,833
Series O	55	-	3	-	58	56

The number of units issued and outstanding for the period ended June 30, 2017 was as follows:

	Balance, Beginning of Period	Units Issued Including Switches from Other Series	Units Reinvested	Units Redeemed Including Switches to Other Series	Balance, End of Period	Weighted Average Number of Units
Series A	215,111	66,626	7,722	(12,752)	276,707	246,041
Series F	811,232	210,384	24,471	(6,855)	1,039,232	908,399
Series O	50	-	3	-	53	51

7. TAXATION

The Fund qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada). Mutual fund trusts are subject to tax on any income, including net realized capital gains, which is not paid or payable to their unitholders. All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statements of financial position as a deferred income tax asset.

The Fund may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income or gains are recorded gross of withholding taxes in the statements of comprehensive income. Withholding taxes are shown as a separate item in the statements of comprehensive income.

The Fund's tax year end is December 31. As at December 31, 2017, there were no capital losses or non-capital losses to carry forward.

8. FEES AND EXPENSES

Pursuant to the Fund's offering memorandum, all of the Fund's fees and expenses, including distributions on Preferred Units (the Preferred Return), are allocated to the Common Units of the Fund. The Preferred Units do not receive any allocation of fees or expenses of the Fund because the Preferred Units only entitle the holder to the Preferred Return and a return of the holder's original subscription amount (Preferred Unit Investment Amount). In contrast, the Common Units entitle the holder to the Fund's income after payment of all fees, expenses, the Preferred Return and the return of any amount of the Preferred Unit Investment Amount.

The Fund is required to pay management fees to the Manager, calculated and accrued on each valuation date and paid monthly. The annual management fee rate for Series A, Series F, Series AP and Series FP Units is 0.50% of the NAV of the applicable series. Management fees on Series O Units are negotiated and are charged to the investors who hold Series O Units, not the Fund. The Fund is also charged service fees on Series A and Series AP Units of 1.00% per annum calculated and accrued on each Valuation Date and paid monthly. The Manager distributes the service fees to advisors as a trailing commission.

In addition, the Fund is responsible for, and the Manager is entitled to reimbursement for any operating expenses it incurs on behalf of the Fund, including regulatory filing fees, custodian fees, legal and audit fees, costs associated with the independent review committee, bank charges, the cost of financial reporting, and all related sales taxes. GST and HST paid by the Fund on its expenses is not recoverable. The Manager also provides key management personnel to the Fund. The Manager may charge the Fund for actual time spent by its personnel (or those of its affiliates) in overseeing the day-to-day business affairs of the Fund. The amount charged for time spent by personnel is determined based on fully allocated costs and does not include a markup or administration fee. The Manager may absorb fund operating expenses at its discretion but is under no obligation to do so.

The Fund is responsible for, and the Manager is entitled to reimbursement from the Fund for all costs associated with its creation and organization, including legal and registration fees associated with the formation of the Fund in the amount of $36,553 (excluding applicable taxes, such as HST). The Fund is required to re-pay the Manager over three years commencing in 2014 and completed its re-payments by the end of 2016.

During the period ended June 30, 2018, additional organization expenses in the amount of $28,450 (excluding applicable taxes such as HST) were incurred for the issuance of Preferred Units. The Fund is required to re-pay this amount to the Manager over five years commencing the month following the first issuance of Preferred Units or January 31, 2019, whichever is last.

During the period ended June 30, 2018 and June 30, 2017, the Fund was charged $nil for organization expenses, including applicable taxes.

9. SOFT DOLLARS

Allocation of business to brokers of the Fund is made on the basis of coverage, trading ability and fundamental research expertise. The Manager may choose to affect portfolio transactions with dealers who provide research, statistical and other similar services to the Fund or to the Manager at prices which reflect such services (proprietary research). The dealers do not provide the Manager with an estimate of the cost of the research, statistical and other similar services (soft dollars).

The Manager may use third party research, which is generally also available on a subscription basis, the value of which will be used to approximate the value of research and other similar services received from third parties through commission sharing arrangements with executing brokers. The Fund has not participated in any third party soft dollar arrangements in connection with portfolio transactions to date.

10. RELATED PARTY TRANSACTIONS

The following table outlines the management fees, service fees and operating expense reimbursements that were charged to the Fund by the Manager during the periods ended June 30, 2018 and June 30, 2017. The table also includes the amount of operating expense reimbursement that was made to affiliates of the Manager for administrative services provided in managing the day-to-day operation of the Fund. All of the dollar amounts in the table below exclude applicable GST or HST.

Period ended	Management Fees ($)	Service Fees ($)	Operating Expense Reimbursement ($)	Operating Expenses Reimbursed to Affiliates of the Manager ($)
June 30, 2018	206,162	89,382	57,262	1,041
June 30, 2017	146,887	61,784	99,895	1,065

The Fund owed the following amounts to the Manager:

As at	Management Fees ($)	Service Fees ($)	Operating Expense Reimbursement ($)
June 30, 2018	72,249	32,429	29,410
December 31, 2017	31,879	12,591	25,789

The Manager, its officers, directors or affiliates may invest in units of the Fund from time to time in the normal course of business. All such transactions occur at NAV per unit.

11. EXEMPTION FROM FILING

The Fund is relying on the exemption obtained in National Instrument 81-106, Part 2.11 not to file its financial statements with the applicable securities regulatory authorities.

12. COMPARATIVE INFORMATION

The terms collective and specific allowance have been changed to impairment (gain) loss on the statements of comprehensive income in order to conform with the financial statement presentation required as a result of adoption of IFRS 9 in the current period.

Statement of Corporate Governance Practices

Canadian securities law requires certain reporting issuers to publish specific disclosure concerning their corporate governance practices. The Manager has established an Independent Review Committee consisting of three members appointed to provide independent advice to assist the Manager in performing its services and to consider and provide recommendations to the Manager on conflicts of interest to which the Manager is subject when managing the Fund.

APPENDIX A

Portland Private Income LP

2018 Interim Report

June 30, 2018

▪ PARTNERSHIP INFORMATION

▪ General Partner:	Portland General Partner (Ontario) Inc.
▪ Registered Office:	1375 Kerns Road, Suite 100 Burlington, Ontario L7P 4V7
▪ Investment fund manager and portfolio manager:	Portland Investment Counsel Inc. Burlington, Ontario
▪ Administrator:	CIBC Mellon Global Securities Services Company Toronto, Ontario
▪ Auditor:	KPMG LLP Toronto, Ontario

Management's Responsibility for Financial Reporting

The accompanying financial statements of Portland Private Income LP (the Partnership) have been prepared by Portland Investment Counsel Inc. in its capacity as manager (the Manager) of the Partnership. The Manager is responsible for the information and representations contained in these financial statements. The Board of Directors of the general partner of the Partnership, Portland General Partner (Ontario) Inc. has approved these financial statements.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Partnership are described in Note 3 to these financial statements.

"Michael Lee-Chin"

Michael Lee-Chin
Director of the Manager
August 23, 2018

"Robert Almeida"

Robert Almeida
Director of the Manager
August 23, 2018

These financial statements have not been reviewed by an independent auditor.

Statements of Financial Position (unaudited)

	As at June 30, 2018	As at December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 134,485	$ 439
Subscriptions receivable	1,044,000	1,526,000
Receivable for investments sold	91,401	905
Interest receivable	718,355	590,885
Dividends receivable	47,199	59,739
Investments (note 5)	83,871,443	76,867,208
Investments - pledged as collateral (note 5 and 9)	9,246,154	5,269,591
	95,153,037	84,314,767
Liabilities		
Current Liabilities		
Borrowing (note 9)	9,184,290	9,545,869
Expenses payable	52,116	49,568
Redemptions payable	15,000	-
Payable for investments purchased	23,371	103,747
Derivative liabilities	8,282	1,830
	9,283,059	9,701,014
Net Assets Attributable to Holders of Redeemable Units	$ 85,869,978	$ 74,613,753
Equity		
General Partner's Equity	100	100
Net Assets Attributable to Holders of Redeemable Units Per Class		
Class A	76	72
Class B	85,869,802	74,613,581
	$ 85,869,878	$ 74,613,653
Number of Redeemable Units Outstanding (note 6)		
Class A	1	1
Class B	1,149,126	1,044,997
Net Assets Attributable to Holders of Redeemable Units Per Unit		
Class A	75.86	72.42
Class B	74.73	71.40

Approved by the Board of Directors of Portland General Partner (Ontario) Inc.

"Michael Lee-Chin"

Director

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

Statements of Comprehensive Income (unaudited)

For the periods ended June 30,	2018	2017
Income		
Net gain (loss) on investments and derivatives		
Dividends	$ 383,570	$ 221,231
Interest for distribution purposes	2,215,794	1,545,362
Net realized gain (loss) on investments	48,969	3,564
Change in unrealized appreciation (depreciation) on investments	1,711,645	988,210
	4,359,978	2,758,367
Other income		
Foreign exchange gain (loss) on cash and other net assets	(212,629)	17,871
Total income (net)	4,147,349	2,776,238
Expenses		
Mortgage administration fees	283,975	217,062
Interest expense and bank charges	148,420	31,444
Withholding tax expense	42,566	12,563
Securityholder reporting costs	23,787	39,596
Impairment (gain) loss (note 3)	20,929	111,501
Audit fees	19,863	12,920
Organization expenses (note 8)	2,057	2,058
Transaction costs	1,365	2,458
Custodial fees	950	388
Legal fees	212	203
Total operating expenses	544,124	430,193
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	$ 3,603,225	$ 2,346,045
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class		
Class A	4	8
Class B	3,603,221	2,346,037
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit		
Class A	3.42	8.00
Class B	3.33	2.85

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

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (unaudited)

For the periods ended June 30,	2018	2017
Net Assets Attributable to Holders of Redeemable Units at Beginning of Period		
Class A	$ 72	$ 61
Class B	74,613,581	48,520,387
	74,613,653	48,520,448
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units		
Class A	4	8
Class B	3,603,221	2,346,037
	3,603,225	2,346,045
Redeemable Unit Transactions		
Proceeds from redeemable units issued		
Class A	-	-
Class B	7,668,000	11,851,000
	7,668,000	11,851,000
Redemptions of redeemable units		
Class A	-	-
Class B	(15,000)	-
	(15,000)	-
Net Increase (Decrease) from Redeemable Unit Transactions	7,653,000	11,851,000
Net Assets Attributable to Holders of Redeemable Units at End of Period		
Class A	76	69
Class B	85,869,802	62,717,424
	$ 85,869,878	$ 62,717,493

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

Statements of Cash Flows (unaudited)

For the periods ended June 30,		2018		2017
Cash Flows from Operating Activities				
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	$	3,603,225	$	2,346,045
Adjustments for:				
Net realized (gain) loss on investments		(48,969)		(3,564)
Change in unrealized (appreciation) depreciation on investments		(1,711,645)		(988,210)
Unrealized foreign exchange (gain) loss on cash		-		(18,034)
Increase (decrease) in impairment (gain) loss		20,930		111,501
Increase (decrease) in interest receivable		(127,470)		(12,716)
(Increase) decrease in dividends receivable		12,540		(2,597)
Increase (decrease) in expenses payable		2,548		(26,405)
Purchase of investments		(12,796,498)		(21,568,081)
Proceeds from sale of investments		3,390,964		5,024,818
Net Cash Generated (Used) by Operating Activities		(7,654,375)		(15,137,243)
Cash Flows from Financing Activities				
Increase (decrease) in borrowing		(361,579)		601,810
Proceeds from redeemable units issued		8,150,000		14,653,000
Net Cash Generated (Used) by Financing Activities		7,788,421		15,254,810
Net increase (decrease) in cash and cash equivalents		134,046		117,567
Unrealized foreign exchange gain (loss) on cash		-		18,034
Cash and cash equivalents - beginning of period		439		38,491
Cash and cash equivalents - end of period		134,485		174,092
Cash and cash equivalents comprise:				
Cash at bank	$	134,485	$	174,092
From operating activities:				
Interest received, net of withholding tax	$	2,088,324	$	1,532,646
Dividends received, net of withholding tax	$	380,161	$	206,071
From financing activities:				
Interest paid, net of withholding tax	$	129,520	$	4,553

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

Schedule of Investment Portfolio (unaudited)
as at June 30, 2018

No. of Units/ Shares/ Face Value	Description	Average Cost	Fair Value	% of Net Assets Attributable to Holders of Redeemable Units
BONDS				
Bermuda				
200,000	Digicel Limited Callable 6.750% March 1, 2023	$ 246,654	$ 218,232	0.3%
Canada				
1,500,000	Baylin Technologies Inc. 9.000% January 17, 2023 - Participation Interest	1,462,948	1,442,705	1.7%
	Total bonds	1,709,602	1,660,937	2.0%
EQUITIES - COMMON				
Bermuda				
2,000	Brookfield Business Partners L.P.	50,663	100,780	
65,000	Brookfield Property Partners L.P.	1,829,951	1,623,050	
		1,880,614	1,723,830	2.0%
Canada				
31,022	Baylin Technologies Inc. Warrant January 17, 2023	40,755	34,468	
430,000	Crown Capital Partners Inc.	3,905,758	4,364,500	
20,000	RioCan Real Estate Investment Trust	481,739	483,000	
8,000	TransAlta Renewables Inc.	107,824	99,520	
		4,536,076	4,981,488	5.8%
United States				
24,000	Alcentra Capital Corporation	333,106	201,615	
64,000	Ares Capital Corporation	1,287,409	1,384,064	
50,000	BlackRock Capital Investment Corporation	463,661	383,220	
27,000	Oaktree Strategic Income Corporation	308,327	301,712	
		2,392,503	2,270,611	2.6%
	Total equities - common	8,809,193	8,975,929	10.4%
EQUITIES - PREFERRED				
Bermuda				
4,000	Brookfield Infrastructure Partners L.P., Preferred, Series 5, Fixed-Reset	100,000	103,400	
3,000	Brookfield Infrastructure Partners L.P., Preferred, Series 7, Fixed-Reset	75,000	75,150	
2,000	Brookfield Infrastructure Partners L.P., Preferred, Series 9, Fixed-Reset	50,000	49,960	
6,000	Brookfield Renewable Partners L.P., Preferred, Series 9, Fixed-Reset	150,290	154,500	
4,000	Brookfield Renewable Partners L.P., Preferred, Series 11, Fixed-Reset	100,000	100,480	
		475,290	483,490	0.6%
Canada				
6,000	Bank of Montreal, Preferred, Series 42, Fixed-Reset	150,000	149,640	
3,000	Brookfield Asset Management Inc., Preferred, Series 48, Fixed-Reset	75,000	77,250	
6,000	Brookfield Office Properties Inc., Preferred, Series CC, Fixed-Reset	150,720	154,860	
4,000	Brookfield Office Properties Inc., Preferred, Series EE, Fixed-Reset	100,000	99,600	
12,000	ECN Capital Corp., Preferred, Series C, Fixed-Reset	263,926	257,160	
1,500	Enbridge Inc., Preferred, Series 11, Fixed-Reset	32,067	30,450	
4,500	First National Financial Corporation, Preferred, Series 1, Fixed-Reset	49,985	60,638	
2,000	Kinder Morgan Canada Ltd, Preferred, Series 1, Fixed-Reset	50,000	49,880	
4,000	National Bank of Canada, Preferred, Series 38, Fixed-Reset	100,000	100,040	
6,000	The Toronto-Dominion Bank, Preferred, Series 16, Fixed-Reset	150,000	151,200	
2,000	TransAlta Corporation, Preferred, Series B, Floating Rate	29,204	29,700	
1,500	TransCanada Corporation, Preferred, Series 15, Fixed-Reset	37,500	38,415	
1,300	Westcoast Energy Inc., Preferred, Series 12, Fixed-Reset	32,500	33,358	
		1,220,902	1,232,191	1.4%
	Total equities - preferred	1,696,192	1,715,681	2.0%
UNDERLYING FUNDS				
Canada				
33,750	Crown Capital Partner Fund, LP	27,903,852	32,260,950	
67,705	Portland Global Energy Efficiency and Renewable Energy Fund LP Class O	4,086,731	4,661,831	
		31,990,583	36,922,781	43.0%
Ireland				
45,184	Blue Ocean Fund	5,913,887	6,452,782	7.5%
	Total - underlying funds	37,904,470	43,375,563	50.5%

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

Schedule of Investment Portfolio (unaudited) (continued)

as at June 30, 2018

No. of Units/ Shares/ Face Value	Description		Average Cost	Fair Value	% of Net Assets Attributable to Holders of Redeemable Units
MORTGAGES					
Canada					
	Private Mortgage Loans (note 5)		38,072,547	37,389,487	
	Total mortgages		38,072,547	37,389,487	43.5%
DERIVATIVES - WRITTEN OPTIONS					
Written Put Options					
Bermuda					
USD (60)	Brookfield Property Partners L.P., Put 17.5, 21/09/2018		(8,668)	(7,099)	-
United States					
USD (60)	Alcentra Capital Corporation, Put 5, 21/09/2018		(693)	(1,183)	-
	Total written options		(9,361)	(8,282)	-
	Net investments		88,182,643	93,109,315	108.4%
	Transaction costs		(9,161)	-	-
		$	88,173,482	93,109,315	108.4%
	Liabilities less other assets			(7,239,437)	(8.4%)
	NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEEMABLE UNITS			$ 85,869,878	100.0%

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

1. GENERAL INFORMATION

Portland Private Income LP (the Partnership) is a limited partnership established under the laws of the Province of Ontario on December 17, 2012 which commenced operations on January 7, 2013. The registered office of the Partnership is 1375 Kerns Road, Suite 100, Burlington, ON L7P 4V7. Pursuant to the limited partnership agreement, Portland General Partner (Ontario) Inc. (the General Partner) is responsible for the management of the Partnership. The General Partner has engaged Portland Investment Counsel Inc. (the Manager) to direct the day-to-day business, operations and affairs of the Partnership, including management of the Partnership's portfolio on a discretionary basis and distribution of the Units of the Partnership. These financial statements are presented in Canadian dollars and were authorized for issue by the Board of Directors of the General Partner on August 23, 2018.

The Partnership was established as an investment vehicle for the Portland Private Income Fund (the Fund). Both the Partnership and the Fund are managed by the Manager.

The investment objective of the Partnership is to preserve capital and provide income and above average long-term returns by investing primarily in a portfolio of private debt securities. To achieve the investment objective, the Manager may invest in a portfolio of private income generating securities, either directly or indirectly through other funds, consisting of:

- private mortgages, administered by licensed mortgage administrators;
- private commercial debts, a portion of which may have provisions resulting in equity ownership of the issuer of the debt or the underlying asset if certain events occur;
- other debt securities, a portion of which may have provisions resulting in equity ownership of the issuer of the debt or the underlying asset if certain events occur; and
- invest in complementary income producing public securities, including real estate income trusts, royalty income trusts, preferred shares, dividend paying equity securities and debt securities including convertibles, corporate and sovereign debt.

To a lesser extent, derivatives may also be used on an opportunistic basis in order to meet the Partnership's investment objective. Derivatives may limit or hedge potential losses associated with currencies, specific securities, stock markets and interest rates or are used to generate income. Derivatives may include forward currency agreements and options.

In addition, the Partnership may borrow (from a bank, prime broker or on a short term basis from the Manager or its affiliates) up to 25% of the total assets of the Partnership after giving effect to the borrowing.

The Partnership may invest in investment funds, mutual funds (collectively, Underlying Funds) and exchange-traded funds which may or may not be managed by the Manager or one of its affiliates or associates. The Partnership may hold cash in short-term debt instruments, money market funds or similar temporary instruments, pending full investment of the Partnership's capital and at any time deemed appropriate by the Manager.

The Partnership has no geographic, industry sector, asset class or market capitalization restrictions. There is no restriction on the percentage of the net asset value (NAV) of the Partnership which may be invested in the securities of a single issuer.

The statements of financial position of the Partnership are as at June 30, 2018 and December 31, 2017. The statements of comprehensive income, changes in net assets attributable to holders of redeemable units, and cash flows of the Partnership are for the six-month periods ended June 30, 2018 and June 30, 2017.

2. BASIS OF PRESENTATION

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

The Partnership has adopted IFRS 9 – Financial Instruments (IFRS 9) for the first time in these financial statements. IFRS 9 replaced International Accounting Standard 39 (IAS 39) and provides a new framework for classification and measurement of financial assets and liabilities, as well as new standards for hedge accounting. The Partnership does not have arrangements in place which meet the criteria for hedge accounting, so those aspects of the standard have not been applied in these financial statements.

The date of initial application for the new classification and measurement standards in IFRS 9 is January 1, 2018. In accordance with the standard, comparative information has not been restated. There were no changes in measurement attributes for any of the financial assets and liabilities held by the Partnership as at January 1, 2018, however, some of the classifications have changed compared to the previous classification under IAS 39. The impact of the change in classification will be illustrated alongside the following note disclosures, where applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(a) Classification

The Partnership classifies financial assets based on the business model used for managing such financial assets and the contractual cash flow characteristics of those financial assets. Where contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test), the financial asset will be classified as a financial asset at amortized cost. Cash, short term commercial paper, short term receivables and commercial and mortgage loans have been classified as financial assets at amortized cost. Equities, options, currency forward contracts and other investment funds do not meet the SPPI test and therefore have been classified as financial assets at fair value through profit and loss (FVTPL). Bonds have been designated as financial assets at FVTPL.

The Partnership's obligation for net assets attributable to holders of redeemable units does not meet the criteria for equity treatment and is therefore presented as a liability on the statements of financial position. The Partnership has elected to classify its obligation for net assets attributable to holders of redeemable units as a financial liability at FVTPL.

All remaining liabilities of the Partnership are classified as financial liabilities at amortized cost and are reflected at the amount required to be paid, discounted to reflect the time value of money when appropriate.

The Partnership's accounting policies for measuring its investments are similar to those used in measuring its net asset value (NAV) for unitholder transactions except for transaction costs and fee revenue on financial assets at amortized cost. Such amounts are fully recognized at initial recognition for NAV purposes but are deferred and amortized for financial statement purposes. It is expected that net assets attributable to holders of redeemable units will be the same in all material respects as the NAV per unit used in processing unitholder transactions.

Financial assets and liabilities may be offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Partnership may enter into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy, certain events of default or termination of the contracts.

(b) Recognition, de-recognition and measurement

Purchases and sales of financial assets are recognized on their trade date - the date on which the Partnership commits to purchase or sell the investment. Financial assets and liabilities are initially recognized at fair value. Transaction costs incurred to acquire financial assets at FVTPL are expensed as incurred in the statements of comprehensive income. Subsequent to initial recognition, all financial assets and liabilities at FVTPL are measured at fair value. Unrealized gains and losses arising from changes in fair value of the FVTPL category are presented in the statements of comprehensive income within 'change in unrealized appreciation (depreciation) on investments' in the period in which they arise. Financial assets at amortized cost are subsequently measured at amortized cost, less any impairment losses as described below. Transaction costs incurred and fee revenues earned are accounted for in the same manner as a discount or premium and are amortized over the life of the asset or liability.

Financial assets are de-recognized when the rights to receive cash flows from the investments have expired or the Partnership has transferred substantially all the risks and rewards of ownership. Upon disposal, the difference between the amount received and the average cost to acquire the financial asset (for financial assets at FVTPL) or the amortized cost (for financial assets at amortized cost) is included within 'net realized gain (loss) on investments' in the statements of comprehensive income.

When the Partnership writes an option, an amount equal to fair value which is based on the premium received by the Partnership is recorded as a liability. When options are closed, the difference between the premium and the amount received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognized as a gain or loss and is presented in the statements of comprehensive income within 'net realized gain (loss) on investments'. When a written call option is exercised, the amount of gain or loss realized from the disposition of the related investment at the exercise price, plus the premiums received at the time the option was written are included in the statements of comprehensive income within 'net realized gain (loss) on investments'. When a written put option is exercised, the amount of premiums received is deducted from the cost to acquire the related investment.

Exchange traded options are valued at their last traded market price where the last traded market price falls within the day's bid-ask spread. In cases where the last traded price is not within the 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 Manager intends only to write options that trade on an exchange.

Realized gains and losses related to options are included in 'net realized gain (loss) on investments' in the statements of comprehensive income.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. The Partnership utilizes the last traded market price for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value. If a significant movement in fair value occurs subsequent to the close of trading up to 4:00 pm Toronto, Canada time on the reporting date, valuation techniques will be applied to determine the fair value. A significant event is any event that occurs after the last market price for a security, close of market or close of the foreign exchange, but before the Partnership's valuation time that materially affects the integrity of the closing prices for any security, instrument, currency or securities affected by that event so that they cannot be considered 'readily available' market quotations.

The fair value of financial assets and liabilities that are not traded in an active market (for example, privately held securities) is determined using valuation techniques.

Revenue recognition

'Interest for distribution purposes' shown on the statements of comprehensive income represents the stated rate of interest earned by the Partnership on fixed income securities, accounted for on an accrual basis. The Partnership does not amortize premiums paid or discounts received on the purchase of fixed income securities, unless they are classified as financial assets at amortized cost, in which case the discount or premium is amortized on a straight line basis, which approximates the effective interest method.

Interest receivable is shown separately in the statements of financial position based on the debt instruments' stated rates of interest. Dividends on equity investments and distributions on investments in other investment funds are recognized as income on the ex-dividend date.

Impairment of financial assets at amortized cost

The Manager estimates the amount of expected credit losses (ECL) on the Partnership's financial assets at amortized cost at each reporting date. The amount of the ECL is deducted from the carrying amount of investments on the statements of financial position. Changes in the ECL from the previous reporting date are included as 'impairment (gain) loss' on the statements of comprehensive income.

Foreign currency translation

The Partnership's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the reporting date. Unrealized exchange gains or losses on financial assets at FVTPL are included in 'change in unrealized appreciation (depreciation) on investments' in the statements of comprehensive income. Realized foreign exchange gains and losses related to financial assets at FVTPL are recognized when incurred and are presented in the statements of comprehensive income within 'net realized gain (loss) on investments'.

Foreign exchange gains and losses related to assets and liabilities at amortized cost are recognized in profit and loss and are presented as 'foreign exchange gain (loss) on cash and other net assets' on the statements of comprehensive income. Such gains and losses arise from sale of foreign currencies, currency gains or losses realized between trade and settlement dates on securities transactions, and the difference between the recorded amounts of dividend, interest and foreign withholding taxes and the Canadian dollar equivalent of the amounts actually received or paid.

Cash and cash equivalents

The Partnership considers liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash is comprised of Canadian or U.S. dollar denominated deposits with a Canadian custodian, a Canadian dealer or a Bermuda-based bank.

Cost of investments

The cost of financial assets at FVTPL represents the average cost for each security excluding transaction costs. The cost of each investment is determined on an average basis by dividing the total cost of such investment by the total number of shares purchased. The cost of financial assets at amortized cost includes transaction costs, as well as the amortization of any premium or discount since initial recognition. On the schedule of investment portfolio, transaction costs have been deducted in aggregate from the total cost of individual investments which include transaction costs.

Redeemable Units

The Partnership has issued two classes of redeemable units which are redeemable monthly at the holder's option upon 60 days' notice. Redeemable units are issued and redeemed based on the Partnership's NAV per unit at the time of issue or redemption. For purposes of determining NAV used for issuing and redeeming units, the Partnership's investments are valued based on fair value.

The redeemable units do not have identical rights and therefore do not meet the test for equity treatment. Such units are considered financial liabilities, have been designated at FVTPL by the Partnership and are included at the redemption amount payable at the statement of financial position date as if the holders exercised their right to redeem units. Refer to note 6 for additional details about the redeemable units.

Expenses

Expenses of the Partnership including operating expenses, are recorded on an accrual basis.

Transaction costs associated with investment transactions, including brokerage commissions, have been expensed on the statements of comprehensive income for financial assets and liabilities at FVTPL.

Interest expense and applicable non-utilization fees associated with borrowing are recorded on an accrual basis.

Loan origination fees

The Partnership may pay fees to a lender at the time of negotiating borrowing facilities. Such origination fees are due at the time the borrowing facility becomes legally binding, which is generally when both the borrower and the lender have signed the agreement. Such fees shall be accounted for as a prepaid expense and amortized on a straight line basis over the term of the borrowing facility, unless they are not material in which case they will be expensed when due. The Manager considers that such fees are not material if they are less than 0.05% of the NAV at the time they become due. The expensed portion of such fees will be included as 'interest expense and bank charges' on the statements of comprehensive income.

Organization expenses

In accordance with its offering documents, organization expenses in the amount of $18,202, excluding applicable taxes such as Harmonized Sales Tax (HST), and which includes legal and registration fees associated with the formation of the Partnership, are recoverable by the Manager from the Partnership. The Partnership is required to re-pay the Manager over five years commencing in 2014. Organization expenses are included as 'organization expenses' on the statements of comprehensive income as they are repaid.

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

'Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit' in the statements of comprehensive income represents the Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class, divided by the weighted average units outstanding of that Class during the reporting period.

Distribution to Unitholders

Distributions will be made to unitholders only at such times and in such amounts as may be determined at the discretion of the Manager.

Allocation of income and expense, and realized and unrealized gains and losses

Management fees and other costs directly attributable to a class are charged to that class. The Partnership's shared operating expenses, income, and realized and unrealized gains and losses are generally allocated proportionately to each class based upon the relative NAV of each class.

Future accounting changes

New standards, amendments and interpretations effective after January 1, 2018 and that have not been early adopted

There are no new accounting standards effective after January 1, 2018 which affect the accounting policies of the Partnership.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates the Partnership has made in preparing these financial statements.

Fair value of securities not quoted in an active market

The fair value of such securities not quoted in an active market may be determined by the Partnership using reputable pricing sources (such as pricing agencies) or indicative prices. Such values may be indicative and not executable or binding. The Partnership would exercise judgement and estimates on the quantity and quality of pricing sources used. Where no market data is available, the Partnership may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The inputs into these models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The determination of what constitutes 'observable' requires significant judgment by the Partnership. The Partnership considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Classification of financial assets and liabilities

Financial assets may be classified as financial assets at amortized cost, financial assets at FVTPL or financial assets at fair value through other comprehensive income. Financial liabilities may be classified as financial liabilities at amortized cost or financial liabilities at FVTPL. In order to classify its financial assets and liabilities in accordance with IFRS 9, the Manager uses judgment to assess the business model of the Partnership and the cash flows of its financial assets and liabilities. The classification of financial assets and liabilities of the Partnership are outlined in note 3.

5. FINANCIAL INSTRUMENTS

a) Categorization of financial instruments

The following tables present the carrying amounts of the Partnership's financial instruments by category as at June 30, 2018:

Assets	Financial assets at FVTPL designated at inception ($)	Financial assets at FVTPL ($)	Financial assets at amortized cost ($)	Total ($)
Cash and cash equivalents	-	-	134,485	134,485
Subscriptions receivable	-	-	1,044,000	1,044,000
Receivable for investments sold	-	-	91,401	91,401
Interest receivable	-	-	718,355	718,355
Dividends receivable	-	-	47,199	47,199
Mortgage investments	-	-	37,389,487	37,389,487
Commercial loans	-	-	1,442,705	1,442,705
Underlying Funds	-	43,375,563	-	43,375,563
Investments	218,232	1,445,456	-	1,663,688
Investments - pledged as collateral	-	9,246,154	-	9,246,154
Total	**218,232**	**54,067,173**	**40,867,632**	**95,153,037**

Liabilities	Financial liabilities at FVTPL Designated at Inception ($)	Financial liabilities at amortized cost ($)	Total ($)
Borrowing	-	9,184,290	9,184,290
Expenses payable	-	52,116	52,116
Redemptions payable	-	15,000	15,000
Payable for investments purchased	-	23,371	23,371
Derivative liabilities	8,282	-	8,282
Net assets attributable to holders of redeemable units	85,869,978	-	85,869,978
Total	**85,878,260**	**9,274,777**	**95,153,037**

The following table presents the changes to the opening categories of financial instruments as at December 31, 2017 due to the adoption of IFRS 9:

Financial Assets	Financial assets at FVTPL ($)	Financial assets at FVTPL designated at inception ($)	Amortized cost ($)	Loans & receivables ($)	Total ($)
Opening Balance – under IAS 39	**-**	**47,572,166**	**-**	**36,742,601**	**84,314,767**
On the basis of change from IAS 39 to IFRS 9:					
Reclassification of loans and receivables	-	-	36,742,601	(36,742,601)	-
Reclassification of designated FVTPL assets to those that must be FVTPL	47,325,000	(47,325,000)	-	-	-
Opening balance – under IFRS 9	**47,325,000**	**247,166**	**36,742,601**	**-**	**84,314,767**

Financial Liabilities	Held for trading ($)	Financial assets at FVTPL ($)	Amortized cost ($)	Total ($)
Opening Balance – under IAS 39	**1,830**	**-**	**9,699,184**	**9,701,014**
On the basis of change from IAS 39 to IFRS 9:				
Reclassification of liabilities that were held for trading	(1,830)	1,830	-	-
Opening balance – under IFRS 9	**-**	**1,830**	**9,699,184**	**9,701,014**

b) Risks associated with financial instruments

The Partnership's investment activities may be exposed to various financial risks, including market risk (which includes price risk, interest rate risk and currency risk), liquidity risk, credit risk and leverage risk. The Partnership invests in other funds and is therefore susceptible to the market risk arising from uncertainties about future values of those Underlying Funds. The Manager makes investment decisions after an extensive assessment of the Underlying Fund, its strategy and the overall quality of the Underlying Funds' managers. All of the Underlying Funds and their underlying investments are subject to risks inherent in their industries. In the case of the Underlying Funds, established markets do not exist for these holdings, and are therefore considered illiquid. The Partnership is therefore indirectly exposed to each financial risk of the respective Underlying Fund in proportion to its investments in such Underlying Fund. The Partnership's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Partnership's investment objectives and risk tolerance per the Partnership's offering documents. All investments result in a risk of loss of capital.

Price risk

Price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk). Financial instruments held by the Partnership are susceptible to market price risk arising from uncertainties about future prices of the instruments.

If the price movement of investments (excluding mortgages, commercial loans [the Loan Portfolio] and bonds) held by the Partnership on June 30, 2018 had been higher or lower by 5%, the net assets attributable to holders of redeemable units of the Partnership would have been higher or lower by $2,702,945 (December 31, 2017: $2,366,159).

Interest rate risk

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

This risk is managed by investing in a short-term Loan Portfolio. As a result, the credit characteristics of the Partnership's Loan Portfolio will evolve such that in periods of higher market interest rates, the Partnership's Loan Portfolio will be those with narrower credit spreads, and vice versa in periods of lower market interest rates, compared to other benchmark rates.

As of June 30, 2018 and December 31, 2017, the Partnership's Loan Portfolio includes fixed rate, short-term mortgages and commercial loans. The Partnership generally intends to hold all of its commercial loans and mortgages to maturity. There is a very limited secondary market for the Partnership's mortgages and commercial loans, and in syndication transactions such as the ones in which the Partnership participates, these instruments are generally traded at face value without regard to changes in interest rates.

The following is a summary of the carrying value (principal minus allowance for expected credit loss) of the Loan Portfolio segmented by gross interest rate (before deduction of mortgage administration fees) as at June 30, 2018 and December 31, 2017:

	0% - 11.99% ($)	12% - 12.99% ($)	13% - 13.99% ($)	14% - 14.99% ($)	Total ($)
June 30, 2018	11,640,140	9,944,269	10,923,644	6,324,139	38,832,192
December 31, 2017	8,929,654	9,218,499	8,353,193	8,063,287	34,564,633

The following is a summary of the carrying value (at amortized cost) of the Loan Portfolio segmented by term as at June 30, 2018 and December 31, 2017:

	12 months or less ($)	13 to 24 months ($)	24 to 36 months ($)	48 to 60 months ($)	Total ($)
June 30, 2018	33,056,059	4,333,428	-	1,442,705	38,832,192
December 31, 2017	23,744,951	9,644,034	1,175,648	-	34,564,633

The Partnership has indirect exposure to interest rate risk through its investment in Crown Capital Partner Fund, LP (Crown Partner Funding) and Blue Ocean Fund (Blue Ocean) which invest in commercial loans.

The Partnership's balances of dividends receivable, interest receivable, subscriptions receivable, receivable for investments sold, expenses payable and payable for investments purchased have no significant exposure to interest rate risk due to their short term nature.

As at June 30, 2018 and December 31, 2017, the Partnership had exposure to interest rate risk due to its borrowings as described in note 9. If interest rates had doubled during the period ended June 30, 2018, interest expense would have been higher and ending net assets attributable to holders of redeemable units would have been lower by $134,324 (June 30, 2017: $4,553).

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Securities included in the Partnership may be valued in or have exposure to currencies other than the Canadian dollar and when measured in Canadian dollars, be affected by fluctuations in the value of such currencies relative to the Canadian dollar.

As at June 30, 2018 and December 31, 2017, the Partnership held investments or made use of borrowings that were denominated in currencies other than the Canadian dollar. The tables below illustrate the foreign currencies to which the Partnership had exposure on June 30, 2018 and December 31, 2017. It also illustrates the potential impact on the net assets attributable to holders of redeemable units if the Canadian dollar had strengthened or weakened by 5% in relation to each of the other currencies, with all other variables held constant.

June 30, 2018				Impact on net assets attributable to holders of redeemable units		
	Monetary ($)	Non-monetary ($)	Total ($)	Monetary ($)	Non-monetary ($)	Total ($)
United States Dollar	(4,745,087)	8,933,342	4,188,255	(237,254)	446,667	209,413
Total	**(4,745,087)**	**8,933,342**	**4,188,255**	**(237,254)**	**446,667**	**209,413**
% of net assets attributable to holders of redeemable units	**(5.5%)**	**10.4%**	**4.9%**	**(0.3%)**	**0.5%**	**0.2%**

December 31, 2017	Exposure			Impact on net assets attributable to holders of redeemable units		
	Monetary ($)	Non-monetary ($)	Total ($)	Monetary ($)	Non-monetary ($)	Total ($)
United States Dollar	(6,418,886)	7,085,134	666,248	(320,944)	354,257	33,313
Total	**(6,418,886)**	**7,085,134**	**666,248**	**(320,944)**	**354,257**	**33,313**
% of net assets attributable to holders of redeemable units	**(8.6%)**	**9.5%**	**0.9%**	**(0.4%)**	**0.5%**	**0.1%**

Liquidity risk

Liquidity risk is the risk that the Partnership will encounter difficulty in meeting obligations associated with financial liabilities. The Partnership is exposed to monthly cash redemptions of its units and borrows to make investments.

The Partnership investments in the Loan Portfolio and the Underlying Funds are not traded in an active market and are non-redeemable. As a result, the Partnership may not be able to quickly liquidate its investments in these instruments at amounts which approximate their fair values. In order to maintain liquidity, the Partnership may invest in complementary, more liquid, income producing public securities, including real estate income trusts, royalty income trusts, preferred shares, dividend paying equity securities and debt securities including convertibles, corporate and sovereign debt. The Partnership has the ability to borrow for the purposes of making investments, providing cover for the writing of options, paying redemptions, working capital purposes and to maintain liquidity in accordance with its investment objective and investment strategies.

The Partnership writes cash secured put options in accordance with its investment objectives and strategies. The value of the securities and/or cash required to satisfy the written options if they were exercised, is presented in the table below.

Value of securities or cash required to satisfy written options	Less than 1 month ($)	1 to 3 months ($)	Total ($)
June 30, 2018	-	177,478	177,478
December 31, 2017	200,000	56,565	256,565

The Partnership has committed $33,750,000 to Crown Partner Funding and USD $5,000,000 to Blue Ocean, as described in note 12. All other payables were due within 3 months from the financial reporting date. Issued redeemable units and borrowings are payable on demand.

Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Partnership.

The Partnership invests a significant portion of its assets in a Loan Portfolio which is subject to credit risk. Any instability in the real estate sector and adverse change in economic conditions in Canada could result in declines in the value of real property securing the Partnership's mortgage investments within its Loan Portfolio.

The Partnership's credit risk management objectives are to:

- establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles; and
- identify, assess and measure credit risk clearly and accurately across the Partnership, from the level of individual mortgages or commercial loans up to the total portfolio.

Credit risk is managed by adhering to the investment and operating policies, as set out in the Partnership's offering documents. This includes the following strategies:

- the majority of mortgages are generally expected to be written for terms of 6 to 36 months and supported by commercial liability insurance and by personal or corporate guarantees; and
- the portfolio of mortgages is generally expected to be written for principal amounts at the time of commitment (together with the principal balance outstanding on prior mortgages if applicable), not exceeding 75% of the determined value of the underlying property securing the mortgage.

Such risks are further mitigated by ensuring a comprehensive due diligence process is conducted on each mortgage prior to funding. This process generally includes, but is not limited to, reviewing legal documentation, independent appraiser's valuations and credit checks and financial statement reviews on prospective borrowers.

Expected Credit Losses

IFRS 9 includes a framework for assessing and accounting for losses on financial assets at amortized cost due to credit impairment. At each reporting date, the Manager performs an assessment of credit risk on its Loan Portfolio. ECLs are estimated and reflected as a reduction to the carrying amount of the Partnership's Loan Portfolio.

The Loan Portfolio is grouped into three categories or stages, as described below.

Stage 1 - Performing

There has been no significant change in credit risk on the loan (or the loan was and still is in the low credit risk category) since initial recognition. The expected credit loss (ECL) rate, as determined below, is multiplied by the aggregate principal + accrued interest of all Stage 1 loans to reduce the carrying amount.

Stage 2 – Non performing

When a particular Stage 1 mortgage or commercial loan moves to Stage 2 (see the section below entitled "Determination of significant changes in credit risk") a lifetime ECL is applied on that individual loan. The lifetime ECL is determined using LTV, information from the third party mortgage administrator or investment manager as well as historical experience in similar situations. A range of possibilities is considered and the probable value of the recovery amount determines the amount of the ECL. Typically, the ECL is ratably higher than the ECL on Stage 1 assets to reflect the increase in credit risk.

Stage 3 – Default

If the Manager believes that a mortgage or commercial loan is in default, an allowance specific to that loan will be determined based on an assessment of the expected loss over the life of the loan. A range of possibilities is considered and the probable value of the recovery amount determines the amount of the lifetime ECL. Typically, the ECL is ratably higher than the ECL on Stage 1 or Stage 2 assets to reflect the increase in credit risk.

For mortgages in Stage 1, an ECL percentage rate is applied to the total carrying value of all mortgage loans that are in Stage 1. The ECL percentage rate is determined by calculating an ECL (in dollars) for each loan in the Mortgage Portfolio and dividing the aggregate ECL by the total value of such loans, excluding the ECL.

As detailed in the Commentary, ECL is calculated by applying the following formula:

Expected credit loss = Exposure at Default (EAD) x Loss Given Default (LGD) x Probability of Default (PD)

EAD is the estimate of what the outstanding balance will be at the time of default, if the borrower does default, including time to resolve the default. LGD is the unrecovered part of EAD if there is a default requiring recovery of collateral or payments under a guarantee. PD is the probability that a borrower will default prior to the maturity of the loan.

For mortgages in Stage 2 or Stage 3, the ECL is determined based on the Manager's best estimate of the ECL over the lifetime of the loan.

The Partnership considers a borrower to be in default when the first of (i) a failure to pay interest or principal on a loan more than 90 days after the payment is due and either the loan-to-cost (LTC) or loan-to-value (LTV) covenant is breached or (ii) bankruptcy filing or receivership, occurs. The Manager believes that more than 90 days and either LTC or LTV covenant breach is a reasonable definition of default based on its previous experience in the mortgage and commercial loan industry. Loans will be written off when there is no reasonable prospect of recovering any further cash flows from the financial asset.

The following tables present the breakdown of the Loan Portfolio into Stages and the respective ECL as at June 30, 2018 and December 31, 2017:

June 30, 2018	Number of Loans	Principal and Accrued Interest ($)	ECL Amount ($)	ECL Rate
Stage 1	26	38,097,927	(564,435)	1.5%
Stage 2	-	-	-	-
Stage 3	2	2,133,626	(133,626)	6.3%
Total	**28**	**40,231,553**	**(698,061)**	

December 31, 2017	Number of Loans	Principal and Accrued Interest ($)	ECL Amount ($)	ECL Rate
Stage 1	26	35,827,039	(677,131)	1.9%
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Total	**26**	**35,827,039**	**(677,131)**	

Determination of significant changes in credit risk

The Manager compares the risk of a default occurring as at the reporting date with the risk of a default occurring on a financial instrument as at the date of initial recognition using reasonable and supportable information that is available without undue cost. The Manager may assume that the credit risk of a private mortgage or commercial loan has not changed significantly if it is determined to have low credit risk at the reporting date. The Manager looks at the following factors to assess whether credit risk has increased (or decreased) since initial recognition:

- Increases in LTC and/or LTV on particular loans;
- Events/delays in construction or intentions that are a significant deviation from planned activities;
- Missed interest or principal payments; and
- Degradation of the financial position of the borrower, including its guarantors.

LTV ratios are updated using forward-looking information whenever it is available via periodic updates from the third party investment manager/mortgage administrator on the status of projects and collateral underlying the loans. LTC and LTV ratios that exceed 90% and 85%, respectively are viewed as a sign that the mortgage may be put on a watch list for potential changes in credit risk. This will depend on how close a project is to completion (in the case of development/construction projects) and other qualitative factors.

The assessment may include an evaluation of the monitoring steps being taken by the third party investment manager/mortgage administrator which can be a sign of a change in credit risk.

The maximum direct exposure to credit risk at June 30, 2018 is the face value of the private mortgage loans plus the accrued interest thereon less the collective allowance and specific allowance, which totaled $38,079,537 (December 31, 2017: $35,149,909). The Partnership has recourse under the terms of the private mortgage loans in the event of default by the borrower, in which case the Partnership would have a claim against the underlying property and security.

The following is a summary of the private mortgage loans held as at June 30, 2018:

	Number of Mortgages	Carrying Value ($)	Carrying Value + Accrued Interest ($)
First Mortgages	25	35,031,127	35,400,841
Second Mortgages	2	2,358,360	2,678,696
Total	**27**	**37,389,487**	**38,079,537**

The following is a summary of the private mortgage loans held as at December 31, 2017:

	Number of Mortgages	Carrying Value ($)	Carrying Value + Accrued Interest ($)
First Mortgages	25	32,214,535	32,559,517
Second Mortgages	1	2,350,098	2,590,392
Total	**26**	**34,564,633**	**35,149,909**

The following is a summary of the private mortgage loans held by the Partnership segmented by type of project as at June 30, 2018 and December 31, 2017:

	Pre-development ($)	Pre-development/ Construction ($)	Construction ($)	Term ($)	Total ($)
June 30, 2018	5,765,190	2,643,877	25,911,952	3,068,468	37,389,487
December 31, 2017	5,099,590	6,392,188	22,845,767	227,088	34,564,633

In addition to private mortgage loans, the Partnership holds a participation interest in a commercial loan which is a co-investment with Crown Partner Funding. In addition to credit risk of the borrower, the participation interest carries additional risks associated with the credit-worthiness of Crown Partner Funding, including illiquidity and lack of control. The Partnership may not be able to exit from all or part of its interest in the loan unless Crown Partner Funding exits. Likewise, if Crown Partner Funding chooses to exit the position, the Partnership may not have a choice, but to also do so. The value of this investment has been reduced by ECL equal to 1.01% of the implied face value of the loan leaving the maximum exposure to credit risk from the investment at $1,442,705 including accrued interest.

The Partnership also has indirect exposure to commercial loans through its investment in Crown Partner Funding and Blue Ocean. The portfolio of commercial loans are generally expected to be first and second lien senior loans and mezzanine debt of 1 to 10 years amortization period and with terms being between 1 to 7 years, although some may be a much longer duration while bridge loans would typically be less than one year.

Ordinarily, the Manager expects the leverage of companies being financed within Crown Partner Funding would be less than 50% of their determined value and controlled at or below a ratio of 5x debt / EBITDA (earnings before interest, taxes, depreciation and amortization). It is anticipated that typical characteristics for the special situations financing being undertaken by Crown Partner Funding are: loans of duration 6 months to 5 years; and covenants including debt / EBITDA typically less than 4x, which is within the preferred risk parameters of the Manager.

As determined by the Manager, the fair value of Crown Partner Funding was reduced by an ECL equal to $324,858 (December 31, 2017: $228,642) which represents 1.01% of the principal of the commercial loans held therein. Within Crown Partner Funding, the total fair value of the commercial loans plus accrued interest, less the collective allowance was $33,772,994 (December 31, 2017: $28,061,100), making the combined total exposure to credit risk from private mortgage loans and commercial loans equal to $74,633,914 (December 31, 2017: $63,211,009).

Based on current expectations, the Manager expects the composition of commercial loans within Blue Ocean to have appropriate loan to value and proper asset protection through their tenors. The investments which are senior secured loans would ordinarily expect to be within the range of 50% – 80% of the determined value of its underlying assets. EnTrustPermal Ltd. (EnTrustPermal), the specialty investment manager of Blue Ocean has appointed Citco Fund Services (Ireland) Limited to act as an external valuer to value Level 1 and certain Level 2 securities of Blue Ocean. Level 3 securities, being mainly the loans, lease portfolios and similar investments within Blue Ocean will be valued by EnTrustPermal with the assistance of one or more specialist maritime pricing providers, in accordance with fair value accounting principles. EnTrustPermal conducts and provides quarterly valuations at a minimum to the Manager. Under U.S. Accounting Standards Codification 820 Fair Value Measures and Disclosures (the Code), EnTrustPermal is required to fair value including an impairment allowance. As Blue Ocean is required to recognize an impairment allowance under the Code, the Manager makes no additional allowance for credit risk.

Leverage Risk

The Partnership uses leverage as part of its investment strategy and is therefore subject to leverage risk. The Partnership may generally borrow up to 25% of its total assets. The Partnership pledges securities as collateral and is able to borrow up to limits imposed by the lender it has pledged the collateral to. The amount of borrowing allowed by the lender depends on the nature of securities pledged. The Partnership pays interest on the amounts borrowed, which accrues daily and is payable monthly.

As at June 30, 2018, the amount borrowed was $9,184,290 (December 31, 2017: $9,545,869) representing 9.7% of the total assets of the Partnership (December 31, 2017: 11.3%). Interest expense incurred on amounts borrowed for the period ended June 30, 2018 was $134,324 (June 30, 2017: $4,553).

c) Fair value of financial instruments

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the inputs used to perform each valuation. The fair value hierarchy is made up of the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or Level 3 - inputs are unobservable for the asset or liability.

The fair value hierarchy requires the use of observable market data each time such data exists. A financial instrument is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value. Private mortgage loans are not measured at FVTPL and therefore are not included in the below summary.

The following table illustrates the classification of the Partnership's financial instruments within the fair value hierarchy as at June 30, 2018:

	Assets at fair value as at June 30, 2018			
	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Equities - Long	10,596,504	95,106	-	10,691,610
Fixed Income	-	218,232	-	218,232
Underlying Funds	-	-	43,375,563	43,375,563
Total	**10,596,504**	**313,338**	**43,375,563**	**54,285,405**

	Liabilities at fair value as at June 30, 2018			
	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Options - Short	(8,282)	-	-	(8,282)
Total	**(8,282)**	**-**	**-**	**(8,282)**

The following table illustrates the classification of the Partnership's financial instruments within the fair value hierarchy as at December 31, 2017:

	Assets at fair value as at December 31, 2017			
	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Equities - Long	9,483,636	260,778	-	9,744,414
Fixed income	-	247,166	-	247,166
Underlying Funds	-	-	37,580,586	37,580,586
Total	**9,483,636**	**507,944**	**37,580,586**	**47,572,166**

	Liabilities at fair value as at December 31, 2017			
	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Options - Short	(1,830)	-	-	(1,830)
Total	**(1,830)**	**-**	**-**	**(1,830)**

Fair value is classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, the instrument is reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

As at June 30, 2018 and December 31, 2017, the Partnership held units of Portland Global Energy Efficiency and Renewable Energy Fund LP (Portland GEEREF LP), which is a closed-end investment fund. Portland GEERE LP has the same Manager and administrator as the Partnership. This investment is considered Level 3 in the fair value hierarchy because it does not allow redemptions or transfers of units prior to dissolution except in very limited circumstances. The Partnership measures Portland GEEREFLP units at the most recently published NAV per unit as reported by its administrator, considering restrictions on the Partnership's ability to redeem units of Portland GEEREF LP. If the NAV per unit of Portland GEEREF LP had been higher or lower by 5%, the net assets attributable to holders of redeemable units of the Partnership would have been higher or lower by $233,092 (December 31, 2017: $234,792).

As at June 30, 2018 and December 31, 2017, the Partnership held an interest in Crown Partner Funding. Crown Partner Funding invests mainly in private commercial loans that may have terms that include an equity interest in the borrower (including the granting of shares or derivatives). Crown Partner Funding is valued using other valuation techniques involving the use of models to determine the discounted value of each commercial loan and the value of any equity interests. This investment is considered Level 3 in the fair value hierarchy because of the level of unobservable inputs. As such the Manager on behalf of the Partnership periodically assesses impairment on a collective basis using an expected loss model and has currently reduced the value of its investment in Crown Partner Funding by applying a collective allowance equal to 1.01% of the principal balance of all commercial loans in the portfolio. The main variable used in the valuation technique is the discount rate applied to the loans. If the value of the

Partnership's position in Crown Partner Funding had been higher or lower by 5% the net assets attributable to holders of redeemable units of the Partnership would have been higher or lower by $1,613,048 (December 31, 2017: $1,403,055).

As at June 30, 2018, the Partnership held an interest in Blue Ocean, which is a closed-ended sub-fund of EnTrustPermal ICAV, an umbrella Irish Collective Asset-management Vehicle with segregated liability between sub-funds. This investment is considered Level 3 in the fair value hierarchy because it does not allow redemptions or transfers of units prior to dissolution. The Partnership measures Blue Ocean at the most recently published NAV per unit as reported by its administrator, considering the Partnership's ability to redeem units of Blue Ocean. If the NAV per unit of Blue Ocean had been higher or lower by 5%, the net assets attributable to holders of redeemable units of the Partnership would have been higher or lower by $322,639 (December 31, 2017: $241,182).

Reconciliation of Level 3 Fair Value Measurement of Financial Instruments

The following tables reconcile the Partnership's Level 3 fair value measurement of financial instruments for the periods ended June 30, 2018 and June 30, 2017:

June 30, 2018	Investment Funds ($)	Total ($)
Balance at beginning of period	37,580,586	37,580,586
Investment purchases during the period	4,230,701	4,230,701
Proceeds from sales during the period	(189,762)	(189,762)
Net transfers in (out) during the period	-	-
Net realized gain (loss) on sale of investments	1,990	1,990
Change in unrealized appreciation (depreciation) in value of investments	1,752,048	1,752,048
Balance at end of period	43,375,563	43,375,563
Change in unrealized appreciation (depreciation) in value of investments held at end of period	**1,752,048**	**1,752,048**

June 30, 2017	Investment Funds ($)	Total ($)
Balance at beginning of period	17,600,330	17,600,330
Investment purchases during the period	11,696,238	11,696,238
Proceeds from sales during the period	-	-
Net transfers in (out) during the period	-	-
Net realized gain (loss) on sale of investments	-	-
Change in unrealized appreciation (depreciation) in value of investments	688,013	688,013
Balance at end of period	29,984,581	29,984,581
Change in unrealized appreciation (depreciation) in value of investments held at end of period	**688,013**	**688,013**

d) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

i) restricted activities;

ii) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;

iii) insufficient equity to permit the structured entity to finance its activities without subordinate financial support; and

iv) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Partnership considers its investments in Underlying Funds to be investments in an unconsolidated structured entity.

The change in fair value of the Partnership is included in the statements of comprehensive income in 'change in unrealized appreciation (depreciation) of the investments'.

The Partnership's investments in Underlying Funds are subject to the terms and conditions of their respective offering documents and are susceptible to market price risk arising from uncertainties about future values. The Manager makes investment decisions after extensive due diligence on the strategy and overall quality of the Underlying Fund's manager.

The Underlying Funds held in the Partnership are non-redeemable and will be liquidated in full upon termination.

The exposure to investments in Underlying Funds at fair value as at June 30, 2018 and December 31, 2017 is presented in the following tables. These investments are included at their fair value in financial assets at FVTPL in the statements of financial position. The Manager's best estimate of the maximum exposure to loss from the Partnership's investment in Underlying Funds is the fair value below.

June 30, 2018:

Description	Net asset value of Underlying Funds ($)	Investment at fair value ($)	% of Net asset value of Underlying Fund
Portland Global Energy Efficiency and Renewable Energy Fund L.P.	24,192,733	4,661,831	19.3%
Crown Capital Partner Fund, LP	217,238,224	32,260,950	14.9%
Blue Ocean Fund	127,681,952	6,452,782	5.1%

December 31, 2017:

Description	Net asset value of Underlying Funds ($)	Investment at fair value ($)	% of Net asset value of Underlying Fund
Portland Global Energy Efficiency and Renewable Energy Fund LP	24,475,992	4,695,846	19.2%
Crown Capital Partner Fund, LP	189,696,381	28,061,100	14.8%
Blue Ocean Fund	86,481,610	4,823,640	5.6%

6. REDEEMABLE UNITS

The Partnership is available in two classes of shares: Class A and Class B. Class A units may only be issued to the General Partner or an affiliate of the General Partner and have voting rights, while Class B units are available for purchase by the Fund and are non-voting. The Partnership is permitted to have an unlimited number of classes of units, having such terms and conditions as the Manager may determine. Additional classes may be offered in the future on different terms, including different fee and dealer compensation terms and different minimum subscription levels. Each unit of a class represents an undivided ownership interest in the net assets of the Partnership attributable to that class of units.

The Partnership endeavors to invest capital in appropriate investments in conjunction with its investment objectives. The Partnership maintains sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments, where necessary.

The Partnership's NAV per unit is determined on the last business day of each month at the close of regular trading on the Toronto Stock Exchange, (each, a Valuation Date) or on such other date as determined by the Manager. The redemption price shall equal the NAV per unit of the applicable class of units being redeemed, determined as of the close of business on the relevant Valuation Date.

The number of units issued and outstanding for the period ended June 30, 2018 was as follows:

Period ended June 30, 2018	Balance, Beginning of Period	Units Issued Including Switches from Other Series	Units Redeemed Including Switches to Other Series	Balance, End of Period	Weighted Average Number of Units
Class A	1	-	-	1	1
Class B	1,044,997	104,330	(201)	1,149,126	1,082,399

The number of units issued and outstanding for the period ended June 30, 2017 was as follows:

Period ended June 30, 2017	Balance, Beginning of Period	Units Issued Including Switches from Other Series	Units Redeemed Including Switches to Other Series	Balance, End of Period	Weighted Average Number of Units
Class A	1	-	-	1	1
Class B	742,379	176,538	-	918,917	823,793

7. TAXATION

The Partnership calculates its taxable income and net capital gains / (losses) in accordance with the Income Tax Act (Canada). The Partnership is not a taxable entity and is required to allocate its taxable income and net capital gains / (losses) to its limited partners in accordance with its limited partnership agreement. Accordingly, the Partnership has not included a provision for taxes in the financial statements.

The Partnership may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income or gains are recorded gross of withholding taxes in the statements of comprehensive income. Withholding taxes are shown as a separate item in the statements of comprehensive income.

The taxation year-end for the Partnership is December 31.

8. FEES AND EXPENSES

The Partnership is responsible for the payment of the following ongoing fees and expenses relating to its operation: custodian fees, administration fees, accounting expenses, audit fees, interest and safekeeping charges, all taxes (including Goods and Services Tax (GST) and HST, if any), assessments or other regulatory and governmental charges levied against the Partnership, interest and all brokerage fees. The Manager may absorb future Partnership operating expenses at its discretion but is under no obligation to do so. In accordance with its offering documents, organization expenses in the amount of $18,202 (excluding applicable taxes, such as HST), which include legal and registration fees associated with the formation of the

Partnership, are recoverable by the Manager from the Partnership. The Partnership is required to re-pay the Manager over five years commencing in 2014. A decision was made by the Manager to waive the chargeable amounts for 2014 and the first 3 months of 2015. Organization expenses charged to the Partnership for the period ended June 30, 2018 were $2,057 (June 30, 2017: $2,057), including applicable taxes, and were included in the line 'organization expenses' on the statements of comprehensive income.

9. BORROWING FACILITY

The Partnership may use various forms of leverage, including its margin facility with a prime broker and a loan facility with a bank, that allows it to borrow funds from time to time when the Manager determines this to be appropriate. The aggregate amount of borrowing by the Partnership may not exceed 25% of the total assets of the Partnership at the time of use.

The Partnership provides the prime broker with an interest in certain assets of the Partnership as collateral for leverage purposes.

For the period ended June 30, 2018, the Partnership's maximum and minimum borrowings were $11,302,215 and $1,933,578, respectively.

For the period ended June 30, 2017, the Partnership's maximum and minimum borrowings were $3,632,151 and $nil, respectively.

10. SOFT DOLLARS

Allocation of business to brokers of the Partnership is made on the basis of coverage, trading ability and fundamental research expertise. The Manager may choose to affect portfolio transactions with dealers who provide research, statistical and other similar services to the Partnership or to the Manager at prices which reflect such services (proprietary research). The dealers do not provide the Manager with an estimate of the cost of the research, statistical and other similar services (soft dollars).

The Manager may use third party research, which is generally also available on a subscription basis, the value of which will be used to approximate the value of research and other similar services received from third parties through commission sharing arrangements with executing brokers. The ascertainable value of the third party soft dollar arrangements in connection with portfolio transactions for the period ended June 30, 2018 was $316 (June 30, 2017: $10).

11. RELATED PARTY TRANSACTIONS

The following table outlines the management fees, service fees and operating expense reimbursements that were charged to the Partnership during the periods ended June 30, 2018 and June 30, 2017. The table also includes the amount of operating expense reimbursement that was made to affiliates of the Manager for administrative services provided in managing the day-to-day operation of the Partnership. All of the dollar amounts in the table below exclude applicable GST or HST.

Period ended	Operating Expense Reimbursement ($)	Organization Expense Reimbursement ($)
June 30, 2018	39,655	1,820
June 30, 2017	46,998	1,820

The Partnership owed the following amounts to the Manager:

Period ended	Operating Expense Reimbursement ($)	Organization Expense Reimbursement ($)
June 30, 2018	13,941	303
December 31, 2017	6,091	303

All of the issued and outstanding Class B units of the Partnership are owned by the Fund, which has the same manager as the Partnership. The Class A unit of the Partnership is owned by the General Partner which is related to the Partnership and the Manager.

On December 13, 2017, an affiliate of the Manager acquired indirect controlling interest in a Bermuda-Based bank. The Partnership has a loan facility with the bank.

12. COMMITMENTS

On September 23, 2015 the Partnership committed to invest $10,000,000 in Crown Partner Funding. Effective July 15, 2016, the amount of this commitment was increased by $6,400,000, effective January 9, 2017, the amount of this commitment was increased by $9,850,000 and effective July 13, 2017, the amount of this commitment was increased by $7,500,000 for a total commitment of $33,750,000.

As at June 30, 2018 the cumulative amount paid toward this commitment was $31,026,341and the remaining capital commitment was $2,723,659.

On June 1, 2017, the Partnership committed to invest U.S. $5,000,000 to Blue Ocean. As at June 30, 2018, U.S. $4,978,142 was paid toward this commitment, resulting in a remaining commitment of U.S. $21,858.

13. EXEMPTION FROM FILING

The Partnership is relying on the exemption obtained in National Instrument 81-106, Part 2.11 not to file its financial statements with the applicable securities regulatory authorities.

14. SUBSEQUENT EVENTS

On July 13, 2018, the Partnership increased its commitment to Crown Partner Funding by $18,750,000, which increased its total commitments to $52,500,000.

15. COMPARATIVE INFORMATION

The terms collective and specific allowance have been changed to impairment (gain) loss on the statements of comprehensive income in order to conform with the financial statement presentation required as a result of adoption of IFRS 9 in the current period.

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