Davis-Rea Equity Fund

Unaudited Financial Statements

For the Periods ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

NOTICE TO READER:

These interim financial statements and related notes for the six-month period ended June 30, 2018 have been prepared by the management of the Fund. The external auditors of the Fund have not audited or reviewed these interim financial statements.

Davis-Rea Equity Fund
Unaudited Statements of Financial Position
As at June 30, 2018 and December 31, 2017
(Expressed in Canadian Dollars)

		June 30, 2018		December 31, 2017
Assets				
Cash	**$**	**11,458,575**	$	691,866
Investments at fair value		**104,242,028**		121,035,225
Subscriptions receivable		**319,050**		-
Accrued interest receivable		**65,520**		14,332
Accrued dividends receivable		**120,556**		130,561
Total assets		**116,205,729**		121,871,984
Liabilities				
Other accrued expenses		**30,698**		42,727
Accrued management fees		**174**		171
Derivative liabilities		**1,241,955**		-
Total liabilities		**1,272,827**		42,898
Net assets attributable to holders of redeemable units (Note 5)	**$**	**114,932,902**	$	121,829,086
Net assets attributable to holders of redeemable units per class (Note 5)				
CLASS A	**$**	**17**	$	15
CLASS B	**$**	**31,916**	$	29,960
CLASS N	**$**	**14,260,867**	$	14,937,082
CLASS O	**$**	**100,640,102**	$	106,862,029
Net assets attributable to holders of redeemable units per unit				
CLASS A	**$**	**14.87**	$	13.90
CLASS B	**$**	**9.14**	$	8.45
CLASS N	**$**	**12.90**	$	11.89
CLASS O	**$**	**12.74**	$	11.74

Davis-Rea Equity Fund
Unaudited Statements of Comprehensive Income
For the six-month periods ended ended June 30, 2018 and 2017
(Expressed in Canadian Dollars)

		2018		2017
Investment Income				
Interest income for distribution purposes	**$**	**109,543**	$	111,879
Dividend income		**876,238**		607,749
		985,781		719,628
Net Gain (Loss) on Investments				
Net realized gain (loss)		**5,542,086**		2,515,866
Net foreign exchange gain (loss) on cash		**11,028**		(337,899)
Net other gain (loss)		**39,942**		45,079
Change in unrealized appreciation (depreciation)		**3,549,155**		(9,068,116)
		9,142,211		(6,845,070)
Net Investment Income (Loss)		**10,127,992**		(6,125,442)
Expenses				
Administration fees		**14,330**		17,912
Audit		**11,072**		10,204
Custodial fees		**28,980**		30,770
Harmonized sales tax		**9,863**		11,594
Independent review committee fees		**6,606**		6,756
Interest expense		**521**		1,978
Legal fees		**1,790**		4,355
Management fees		**298**		3,327
Registration and other filing fees (Note 9)		**1,128**		495
Transaction costs		**45,284**		22,103
Trustee fees		**2,443**		2,353
Unitholder communication fees		**20,846**		25,709
Withholding tax		**33,689**		19,272
		176,850		156,828
Expenses waived/absorbed by the manager		**-**		
		176,850		
Increase (decrease) in net assets attributable to holders of redeemable units	**$**	**9,951,142**	$	(6,282,270)
Increase (decrease) in net assets attributable to holders of redeemable units per class				
CLASS A	**$**	**2**	$	(44,924)
CLASS B	**$**	**2,388**	$	(1,699)
CLASS N	**$**	**1,249,785**	$	(735,010)
CLASS O	**$**	**8,698,967**	$	(5,500,637)

Davis-Rea Equity Fund
Unaudited Statements of Comprehensive Income
For the six-month periods ended ended June 30, 2018 and 2017
(Expressed in Canadian Dollars)

		2018		2017
Average redeemable units outstanding				
CLASS A		**1**		24,456
CLASS B		**3,519**		3,518
CLASS N		**1,143,638**		1,354,402
CLASS O		**8,214,917**		10,365,376
Increase (decrease) in net assets attributable to holders of redeemable units per unit				
CLASS A	**$**	**1.42**	$	(1.84)
CLASS B	**$**	**0.68**	$	(0.48)
CLASS N	**$**	**1.10**	$	(0.54)
CLASS O	**$**	**1.06**	$	(0.52)

Davis-Rea Equity Fund
Unaudited Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
For the six-month periods ended ended June 30, 2018 and 2017
(Expressed in Canadian Dollars)

Total		**2018**		**2017**
Net assets attributable to holders of redeemable units at beginning of period	**$**	**121,829,086**	$	143,667,165
Increase (decrease) in net assets attributable to holders of redeemable units		**9,951,142**		(6,282,270)
Distributions paid or payable to holders of redeemable units				
From net investment income		**(875,165)**		(558,824)
From net realized capital gains		**-**		(2,092,642)
Total distributions to holders of redeemable units		**(875,165)**		(2,651,466)
Redeemable unit transactions				
Amount received from the issuance of units		**3,093,130**		2,199,702
Amount received from reinvestment of distributions		**870,919**		2,598,561
Amount paid on redemptions of units		**(19,936,210)**		(7,622,593)
Net increase (decrease) from redeemable unit transactions		**(15,972,161)**		(2,824,330)
Net increase (decrease) in net assets attributable to holders of redeemable units		**(6,896,184)**		(11,758,066)
Net assets attributable to holders of redeemable units at end of period	**$**	**114,932,902**	$	131,909,099

CLASS A		**2018**		**2017**
Net assets attributable to holders of redeemable units at beginning of period	**$**	**15**	$	984,765
Increase (decrease) in net assets attributable to holders of Class A units		**2**		(44,924)
Redeemable unit transactions				
Amount received from the issuance of units		**-**		3
Amount paid on redemptions of units		**-**		(939,830)
Net increase (decrease) from redeemable unit transactions		**-**		(939,827)
Net increase (decrease) in net assets attributable to holders of redeemable units		**2**		(984,751)
Net assets attributable to holders of redeemable units at end of period	**$**	**17**	$	14

CLASS B		**2018**		**2017**
Net assets attributable to holders of redeemable units at beginning of period	**$**	**29,960**	$	30,790
Increase (decrease) in net assets attributable to holders of Class B units		**2,388**		(1,699)
Distributions paid or payable to unitholders				
From net realized capital gains		**-**		(455)
Total distributions to holders of redeemable units		**-**		(455)
Redeemable unit transactions				
Amount received from reinvestment of distributions		**-**		455
Amount paid on redemptions of units		**(432)**		-
Net increase (decrease) from redeemable unit transactions		**(432)**		455
Net increase (decrease) in net assets attributable to holders of redeemable units		**1,956**		(1,699)
Net assets attributable to holders of redeemable units at end of period	**$**	**31,916**	$	29,091

Davis-Rea Equity Fund
Unaudited Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
For the six-month periods ended ended June 30, 2018 and 2017
(Expressed in Canadian Dollars)

CLASS N		**2018**		**2017**
Net assets attributable to holders of redeemable units at beginning of period	**$**	**14,937,082**	$	16,562,540
Increase (decrease) in net assets attributable to holders of Class N units		**1,249,785**		(735,010)
Distributions paid or payable to unitholders				
From net investment income		**(109,386)**		(64,984)
From net realized capital gains		**-**		(243,256)
Total distributions to holders of redeemable units		**(109,386)**		(308,240)
Redeemable unit transactions				
Amount received from the issuance of units		**-**		(1)
Amount received from reinvestment of distributions		**109,386**		308,241
Amount paid on redemptions of units		**(1,926,000)**		(432,500)
Net increase (decrease) from redeemable unit transactions		**(1,816,614)**		(124,260)
Net increase (decrease) in net assets attributable to holders of redeemable units		**(676,215)**		(1,167,510)
Net assets attributable to holders of redeemable units at end of period	**$**	**14,260,867**	$	15,395,030

CLASS O		**2018**		**2017**
Net assets attributable to holders of redeemable units at beginning of period	**$**	**106,862,029**	$	126,089,070
Increase (decrease) in net assets attributable to holders of Class O units		**8,698,967**		(5,500,637)
Distributions paid or payable to unitholders				
From net investment income		**(765,779)**		(493,840)
From net realized capital gains		**-**		(1,848,931)
Return of capital				-
Total distributions to holders of redeemable units		**(765,779)**		(2,342,771)
Redeemable unit transactions				
Amount received from the issuance of units		**3,093,130**		2,199,700
Amount received from reinvestment of distributions		**761,533**		2,289,865
Amount paid on redemptions of units		**(18,009,778)**		(6,250,263)
Net increase (decrease) from redeemable unit transactions		**(14,155,115)**		(1,760,698)
Net increase (decrease) in net assets attributable to holders of redeemable units		**(6,221,927)**		(9,604,106)
Net assets attributable to holders of redeemable units at end of period	**$**	**100,640,102**	$	116,484,964

Davis-Rea Equity Fund
Unaudited Statements of Cash Flows
For the six-month periods ended ended June 30, 2018 and 2017
(Expressed in Canadian Dollars)

		2018		2017
Cash flows from operating activities				
Increase (decrease) in net assets attributable to holder of redeemable units	**$**	**9,951,142**	$	(6,282,270)
Adjustments for:				
Foreign exchange (gain) loss on cash		**(11,028)**		337,899
Net realized (gain) loss on sale of investments		**(5,542,086)**		(2,515,866)
Net change in unrealized (appreciation) depreciation of investments		**(3,549,155)**		9,068,116
Purchase of investments		**(28,447,144)**		(21,863,872)
Proceeds from the sale of investments		**55,573,537**		20,751,420
Interest receivable		**(51,188)**		51,687
Dividends receivable		**10,005**		(11,931)
Other liabilities		**(12,026)**		(10,073)
		27,922,057		(474,890)
Financing activities				
Amount received from the issuance of units		**2,774,080**		2,053,202
Amount paid on redemptions of units		**(19,936,210)**		(7,647,793)
Distributions paid to unitholders		**(4,246)**		(45,937)
		(17,166,376)		(5,640,528)
Increase (decrease) in cash during the period		**10,755,681**		(6,115,418)
Change in unrealized foreign exchange gain (loss) on cash		**11,028**		(337,899)
Cash, beginning of period		**691,866**		16,363,300
Cash, end of period	**$**	**11,458,575**	$	9,909,983

Supplemental Disclosure

Interest received	**$**	**58,355**	$	163,566
Dividends received, net of withholding taxes	**$**	**852,554**	$	576,546

DAVIS-REA EQUITY FUND
Unaudited Statement of Investment Portfolio
As of June 30, 2018
(Expressed in Canadian Dollars)

	Number of Shares / Par Value	Average Cost* $	Fair Value $
Canadian Equities - 44.25%			
Energy - 35.83%			
AltaGas Ltd., Subscription Receipts	236,035	7,279,009	6,408,350
Gear Energy Ltd.	10,603,313	13,979,895	14,314,472
Kelt Exploration Ltd.	1,107,615	11,715,534	9,891,001
Keyera Corp.	102,100	3,811,637	3,734,818
Vermilion Energy Inc.	143,989	8,179,141	6,826,518
		44,965,216	**41,175,159**
Real Estate - 1.53%			
Automotive Properties REIT	168,390	1,454,185	1,757,992
		1,454,185	**1,757,992**
Health Care - 1.52%			
CannTrust Holdings Inc.	222,390	1,923,540	1,741,314
		1,923,540	**1,741,314**
Utilities - 5.37%			
Brookfield Infrastructure Partners L.P.	122,450	4,342,727	6,176,378
		4,342,727	**6,176,378**
Total Canadian Equities		**52,685,668**	**50,850,843**
Canadian Bonds - 4.84%			
Dollarama Inc., 3.095%, 2018/11/05	1,579,000	1,587,606	1,585,171
Sobeys Inc., 3.520%, 2018/08/08	2,716,000	2,728,380	2,720,783
Wells Fargo Financial Canada Corp., 2.780%, 2018/1/15	1,251,000	1,257,443	1,254,738
Total Canadian Bonds		**5,573,429**	**5,560,692**
Foreign Equities - 37.93%			
Consumer Discretionary - 10.13%			
Amazon.com Inc.	1,600	1,633,586	3,577,603
Aptiv PLC	11,000	1,219,011	1,325,882
Booking Holdings Inc.	850	1,936,893	2,266,555
McDonald's Corp.	11,000	1,072,491	2,267,296
Walt Disney Co. (The)	16,000	1,644,485	2,205,957
		7,506,466	**11,643,293**

DAVIS-REA EQUITY FUND
Unaudited Statement of Investment Portfolio
As of June 30, 2018
(Expressed in Canadian Dollars)

	Number of Shares / Par Value	Average Cost* $	Fair Value $
Financials - 9.25%			
Goldman Sachs Group Inc. (The)	13,200	4,077,492	3,829,964
JPMorgan Chase & Co.	25,850	3,535,790	3,543,257
PNC Financial Services Group Inc.	11,800	2,205,274	2,097,064
Wells Fargo & Co.	16,000	1,199,416	1,166,857
		11,017,972	**10,637,142**
Health Care - 4.00%			
Stryker Corp.	20,700	1,464,802	4,598,027
		1,464,802	**4,598,027**
Industrials - 3.36%			
Stanley Black & Decker Inc.	22,100	1,883,126	3,860,979
		1,883,126	**3,860,979**
Information Technology - 11.19%			
Accenture PLC, Class 'A'	11,600	1,992,983	2,496,256
Activision Blizzard Inc.	23,000	1,909,111	2,309,088
Alphabet Inc., Class 'A'	1,880	1,335,019	2,792,539
Apple Inc.	10,050	1,405,409	2,447,205
Facebook Inc., Class 'A'	11,000	1,386,399	2,811,801
		8,028,921	**12,856,889**
Total Foreign Equities		**29,901,287**	**43,596,330**
Foreign Bonds - 3.68%			
KeyCorp., Callable, 2.300%, 2018/12/13	1,700,000	2,176,447	2,233,021
Molson Coors International L.P., Series '1', 2.250%, 2018/09/18	2,000,000	2,002,000	2,001,142
Total Foreign Bonds		**4,178,447**	**4,234,163**
Total Cost and Fair Value of Investments - 90.70%		**92,338,831**	**104,242,028**
Transaction Cost Included in Average Cost		**(27,029)**	
Total Investments - 90.70%		**92,311,802**	**104,242,028**
Total Foreign Currency Forwards (Schedule 1) - (1.08%)			**(1,241,955)**
Other Assets and Liabilities, Net - 10.38%			**11,932,829**
Net Assets Attributable to Holders of Reedemable Units - 100.00%			**114,932,902**

*Cost includes transaction costs
Percentage shown relate to investments at fair value at Net Assets Attributable to Holders of Redeemable Units (Net Assets) as at June 30, 2018.

DAVIS-REA EQUITY FUND
Unaudited Statement of Investment Portfolio
As of June 30, 2018
(Expressed in Canadian Dollars)

Schedule 1 - Forward Contracts

Counterparty	Credit** Rating	Settlement Date	Currency Buy	Contractual Amounts $	Currency Sell	Position $	Contract Rate	Market Rate	Gain (Loss) $
Canadian Imperial Bank of Commerce	A-1	7/6/2018	CAD	2,518,078	USD	(2,000,000)	0.794257	0.760222	(112,731)
Canadian Imperial Bank of Commerce	A-1	7/6/2018	CAD	12,588,790	USD	(10,000,000)	0.794358	0.760222	(565,257)
Canadian Imperial Bank of Commerce	A-1	7/6/2018	CAD	12,590,080	USD	(10,000,000)	0.794276	0.760222	(563,967)
									(1,241,955)

** Source: S&P Global Ratings, a division of S&P Global

1. ESTABLISHMENT OF TRUST

The Davis-Rea Equity Fund (the "Fund") is an open ended unincorporated unit trust that was established under the laws of the Province of Ontario by a declaration of trust dated May 31, 2011. CIBC Mellon Trust Company is the trustee (the "Trustee") and the custodian (the "Custodian") of the Fund. Davis-Rea Ltd. is the manager (the "Manager") of the Fund. The Fund began to issue Class A, Class B, Class F, Class N and Class O units on June 19, 2011. Prior to March 20, 2013, Class A units of the Fund were intended for accredited investors in units of the Fund, Class F units of the Fund were intended for investors who participate in a fee based program through their dealer, and Class O units of the Fund were intended for investors who entered into an investment management agreement with the Manager. Class N units of the Fund can only be purchased by another Davis-Rea Fund. On and after March 20, 2013, Class A, Class B, Class F and Class O units of the Fund can be bought by any retail investor, provided that in the case of Class F units of the Fund, the investor is participating in a fee based program with their dealer, and in the case of Class O units of the Fund, the investor has entered into a Class O investment management agreement with the Manager.

The financial statements of the Fund for the period ended June 30, 2018 were authorized for issue on August 20, 2018.

2. BASIS OF PRESENTATION

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

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB). The financial statements are prepared on the historical cost basis except for certain assets, liabilities and financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

3. SIGNIFICANT ACCOUNTING POLICIES

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

IFRS 9 Transition

Effective January 1, 2018, the Funds adopted IFRS 9, *Financial Instruments*. The new standard requires financial assets to be carried at amortized cost or fair value, with changes in fair value recognized in fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI") based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Assessment and decision on the business model approach used is an accounting judgement.

Upon transition to IFRS 9, the Funds' financial assets and financial liabilities were classified as FVTPL. This classification differs from the classification under the previous International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*, therefore there were changes in categorization of certain financial assets and financial liabilities upon transition to IFRS 9. Effective January 1, 2018, all financial assets that had previously been designated as FVTPL and all financial assets and liabilities that were previously classified as financial assets and financial liabilities at amortized cost were reclassified as FVTPL. Derivative assets and derivative liabilities that were previously considered as held-for-trading financial instruments and were classified as FVTPL remain unchanged upon transition to IFRS 9.

There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9.

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

The Fund classifies its financial assets and financial liabilities at initial recognition into the following categories, in accordance with IFRS 9.

Financial Assets and Liabilities at Fair Value through Profit or Loss ("FVTPL")
The Fund classifies its investments as financial assets at FVTPL. These financial assets are designated upon initial recognition on the basis that they are in accordance with risk management and investment strategies of the Fund, as set out in the Fund's simplified prospectus.

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

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

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

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

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

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

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

Investment Transactions and Income Recognition
The accrual method of recording income and expenses is followed by the Fund, with investment transactions accounted for on the trade date basis and dividend income recorded on the ex-dividend date. Gains and losses on the sale of investments are determined using an average cost basis. Distributions from income trusts are recognized on the ex-distribution date and are recorded as income, capital gains or return of capital, based on the best information available. Those treated as return of capital reduce the average costs of the underlying investment. Interest for distribution purposes, as disclosed in the Statement of Comprehensive Income on debt securities at FVTPL, is recognized on accrual basis and represents the coupon interest received. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight-line basis.

Valuation of Investments
Investments held that are traded in an active market through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers, are valued at their last traded market price where the last traded market price falls within the day's bid-ask spread. In circumstances where the last traded price is not within that day's bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on specific facts and circumstances. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer. Investments held, such as bonds, with no active market or available bid prices are valued at their closing sale prices. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include discounted cash flow analysis and option pricing models, which consider factors such as the market value of the underlying security, strike price, volatility and terms of the warrants or options.

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

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

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

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

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

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

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

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

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

Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit
The increase (decrease) in net assets attributable to holders of redeemable units per unit in the Statement of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units for the year divided by the weighted average units outstanding during the year for each class.

Other Assets and Liabilities
Accrued interest receivable, accrued dividends receivable and other assets are recorded at amortized cost. Similarly, redemptions payable, accrued management fees, other accrued expenses and distributions payable to unitholders are recorded at amortized cost. These balances are short term in nature, therefore, amortized cost approximates fair value for these assets and liabilities.

Offsetting of Financial Instruments
In the normal course of business, the Fund enters into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the Statements of Financial Position, but still allow for the related amounts to be set-off in certain circumstances, such as bankruptcy or termination of the contracts. Refer to Note 13, which shows financial instruments that may be eligible for offset, if such conditions were to arise, as at June 30, 2018. The "Master netting arrangements" column displays what the net impact would be on the Fund's Statements of Financial Position if all amounts were set-off.

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

Redeemable Participating Shares/Units
Redeemable units are redeemable at the unitholder's option and are classified as other financial liabilities and are recorded at the present value of the redeemable amount. Net asset value per unit of each series is calculated on the last day of the month (unless such day is not a business day, in which case the last business day prior to such day is

used) (each a "valuation day") by dividing the net asset value of each series by the outstanding units of that series. The net asset value of each series is computed by calculating the fair value of the assets less liabilities of the series.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Fair Value Measurement and Securities not Quoted in an Active Market
When the Fund holds financial instruments that are not quoted in active markets, the fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources. Broker quotes as obtained from the pricing sources may be indicative and not executable. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

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

Classification and Measurement of Investments and Application of the Fair Value Option
In classifying and measuring financial instruments held by the Funds, the Manager is required to make significant judgments about whether or not the business of the Funds is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IFRS 9. The Manager has assessed the Funds' business model, the manner in which all financial instruments are managed and performance evaluated as a group on a fair value basis, and concluded that FVTPL in accordance with IFRS 9 provides the most appropriate measurement and presentation of the Funds' financial instruments.

5. REDEEMABLE UNITS

The capital of the Fund is represented by Class A, B, F, N and O issued redeemable units with no par value. There were no Class F units issued or outstanding during the period. Unitholders are entitled to distributions, if any, and to payment of a proportionate share of the net assets based on the Fund's Net Asset Value per unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscription and redemption of units. Capital movements are disclosed in the Statements of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with the investment strategies and risk management policies outlined in Note 11, the Fund endeavours to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

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

(Expressed in Canadian Dollars)

The following table summarizes the changes in the number of units for the period ended June 30, 2018:

	Class A Number of Units	**Class B Number of Units**	**Class N Number of Units**	**Class O Number of Units**
Balance, beginning of period	**1**	**3,545**	**1,255,999**	**9,102,661**
Units issued	-	-	-	**254,370**
Units redeemed	-	**(53)**	**(159,750)**	**(1,519,125)**
Reinvestments	-	-	**9,006**	**63,487**
Balance, end of period	**1**	**3,492**	**1,105,255**	**7,901,393**

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

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

6. DISTRIBUTIONS PER UNIT

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

The Fund had the following distribution for the six-month period ended June 30:

	2018	2017
From net realized capital gain	**$ -**	$ 2,092,642
From net investment income	**$ 875,165**	$ 558,824

7. INCOME TAXES

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

The Fund may be subject to Alternative Minimum Tax in a year in which it has a net investment loss for tax purposes as well as net realized capital gain. This Alternative Minimum Tax can be carried forward indefinitely to be applied against future taxes otherwise payable. There was no Alternative Minimum Tax as at December 31, 2017 or 2016.

8. MANAGEMENT FEES AND OTHER EXPENSES AND RELATED PARTY TRANSACTIONS

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

The Management fee for Class A, Class B and Class F, is computed at 1.75%, 2.00% and 1.50% respectively, per annum of the net asset value of the Fund plus applicable taxes. The management fee is calculated daily, accrued daily and payable quarterly to the Manager. Class O unitholders pay management fees directly to the Manager and no management fees are charged to Class N unitholders, as these units can only be purchased by another Davis Rea Fund.

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

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

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

9. ECONOMIC DEPENDENCE

As at June 30, 2018, 12.44% of total net assets are held by one investor (December 31, 2017 –12.12%).

10. SOFT DOLLAR COMMISSIONS

The brokerage commissions paid on securities transactions may include "soft dollar" amounts, such as the value of research and other services provided by the broker. Although the Manager uses best efforts to determine the soft dollar portion of commissions paid on portfolio transactions of the Fund, the soft dollar portion, in some instances, is not ascertainable. The Fund paid soft dollar amounts during the period ended June 30, 2018 of $12,740 (2017 - $1,733).

11. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES

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

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

(Expressed in Canadian Dollars)

Credit Risk

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

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

A Fund's source of credit risk is its investments in debt instruments. The fair value of debt instruments includes consideration of the credit worthiness of the issuer, and accordingly represents the maximum credit risk exposure of the investment in debt instruments for the Fund. The Fund's maximum exposure to credit risk in any one investment relates to Sobeys Inc. in the amount of $2,720,783 which represents 2.37% of the net assets of the Fund (December 31, 2017 – Kelt Exploration Ltd. in the amount of $5,062,500 which represented 4.16% of the net assets of the Fund).

As at June 30, 2018 and December 31, 2017, the Fund invested in debt instruments with the following credit ratings:

	% of Net Assets	
Debt securities by credit rating*	**June 30, 2018**	December 31, 2017
A	**1.09%**	0.00%
BBB	**5.06%**	0.00%
Below BBB	**2.37%**	-
Unrated	**-**	0.00%
Unrated (U)	**0.00%**	4.16%
Total	**8.52%**	4.16%

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

Liquidity Risk

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

Interest Rate Risk

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

(Expressed in Canadian Dollars)

The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity as at June 30, 2018 and December 30, 2017.

		June 30, 2018		December 31, 2017
Less than 1 year	**$**	**9,794,855**	$	-
3-5 years		**-**		5,062,500
Total	**$**	**9,794,855**	$	5,062,500

As at June 30, 2018, had the prevailing interest rates raised or lowered by 1%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $27,678 (December 31, 2017 - $184,883). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Market Risk

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

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

As at June 30, 2018, a 5% increase or decrease in stock prices would have increased or decreased the Fund's net assets by $4,722,359 (December 31, 2017 - $5,798,636). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Concentration Risk
Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type.

	Percentage of Net Assets (%)	
Portfolio by Category	**June 30, 2018**	December 31, 2017
Canadian Equities		
Energy	**35.8**	38.7
Real Estate	**1.5**	1.9
Health Care	**1.5**	-
Utilities	**5.4**	6.9
Canadian Bonds	**4.8**	4.2
Foreign Equities		
Consumer Discretionary	**10.1**	12.3
Financials	**9.3**	7.4
Health Care	**4.0**	9.5
Industrials	**3.4**	4.4
Information Technology	**11.2**	14.1
Foreign Bonds	**3.7**	-
Other Assets and Liabilities, Net	**9.3**	0.6
	100.0	**100.0**

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

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

The table below indicates the currencies to which the Fund had significant exposure as at June 30, 2018:

	Cash	Receivables	Investments	Gross Exposure	Foreign Currency Forward Contracts	Total
U.S. Dollar	**$ 6,531,626**	**$ 21,358**	**$ 52,005,729**	**$ 58,558,713**	**$ (28,938,903)**	**$ 29,619,810**

The table below indicates the currencies to which the Fund had significant exposure as at December 31, 2017:

	Cash	Receivables	Investments	Gross Exposure	Foreign Currency Forward Contracts	Total
U.S. Dollar	$ 90,704	$ 41,765	$ 58,161,706	$ 58,294,175	$ -	$ 58,294,175

As at June 30, 2018, had the Canadian dollar strengthened or weakened by 5% in relation to all currencies, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $1,480,991 (December 31, 2017 - $2,914,709). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

12. FAIR VALUE DISCLOSURES

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

The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Canadian Equities	**$ 50,850,843**	**-**	**-**	**$ 50,850,843**
Foreign Equities	**43,596,330**	**-**	**-**	**43,596,330**
Canadian Bonds	**-**	**5,560,692**	**-**	**5,560,692**
Foreign Bonds	**-**	**4,234,163**	**-**	**4,234,163**
	$ 94,447,173	**$ 9,794,855**	**$ -**	**$104,242,028**

The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at December 31, 2017:

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

(Expressed in Canadian Dollars)

There have been no transfers between level 1, 2 or 3 investments in the periods ended June 30, 2018 and December 31, 2017.

13. OFFSETTING OF FINANCIAL INSTRUMENTS

The Fund may enter into various master netting arrangements or other similar agreements for its foreign currency forward contracts that do not meet the criteria for offsetting in the Statements of Financial Position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of the contracts. Amounts due to/due from brokers are not included in the table below as these balances are settled within 2-3 business days.

The following table shows financial instruments that may be eligible for offset, if such conditions were to arise as at June 30, 2018:

As at June 30, 2018	Amounts offset ($)			Amounts not offset in the Statements of Financial Position ($)		Net amount ($)
Financial assets and liabilities	Gross assets (Liabilities)	Gross assets (Liabilities) offset under IFRS	Amounts presented on the Statements of Financial Position	Master netting arrangements	Cash collateral received (pledged)	
Derivative assets	-	-	-	-	-	-
Derivative liabilities	(1,241,955)	-	(1,241,955)	-	-	(1,241,955)

14. CAPITAL MANAGEMENT

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

15. STATEMENT OF PORTFOLIO TRANSACTION

A statement of portfolio transactions (unaudited) for the period ended June 30, 2018 will be provided without charge by writing to:

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