

Davis-Rea Fixed Income 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 FIXED INCOME 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	\$ 942,897	\$ 410,719
Investments at fair value	67,048,802	73,511,036
Receivable for investments sold	5,108	1,005,351
Subscriptions receivable	46,000	-
Accrued interest receivable	545,983	517,424
Accrued dividends receivable	29,793	43,050
Total assets	68,618,583	75,487,580
Liabilities		
Payable for investments purchased	504,273	-
Accounts payable and accrued liabilities	24,857	46,120
Total liabilities	529,130	46,120
Net assets attributable to holders of redeemable units (Note 5)	\$ 68,089,453	\$ 75,441,460
Net assets attributable to holders of redeemable units per class (Note 5)		
CLASS A	\$ 14	\$ 14
CLASS N	\$ 5,897,454	\$ 6,705,832
CLASS O	\$ 62,191,985	\$ 68,735,614
Net assets attributable to holders of redeemable units per unit		
CLASS A	\$ 12.49	\$ 12.60
CLASS N	\$ 9.69	\$ 9.78
CLASS O	\$ 9.71	\$ 9.80

DAVIS-REA FIXED INCOME FUND
Unaudited Statements of Comprehensive Income
For the six-month periods ended June 30, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
Investment Income		
Interest income for distribution purposes	\$ 1,225,161	\$ 1,341,986
Dividend income	147,741	194,460
	1,372,902	1,536,446
Net Gain (Loss) on Investments		
Net realized gain (loss)	(123,106)	(171,788)
Net foreign exchange gain (loss) on cash	(128)	13,154
Net other gain (loss)	7,656	2,647
Change in unrealized appreciation (depreciation)	(598,766)	250,489
	(714,344)	94,502
Net Investment Income (Loss)	658,558	1,630,948
Expenses		
Administration fees	9,819	13,680
Audit fees	9,005	7,947
Custodial fees	14,580	24,755
Harmonized sales tax	5,920	8,620
Independent review committee fees	4,057	4,115
Interest expense	464	-
Legal fees	1,210	3,167
Registration and other filing fees	849	495
Transaction costs	3,236	2,742
Trustee fees	2,443	2,534
Unitholder communication fees	10,311	14,299
	61,894	82,354
Expenses waived/absorbed by the manager	-	-
	61,894	82,354
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 596,664	\$ 1,548,594
Increase (decrease) in net assets attributable to holders of redeemable units per class		
CLASS A	\$ -	\$ -
CLASS N	\$ 52,622	\$ 140,578
CLASS O	\$ 544,042	\$ 1,408,016

DAVIS-REA FIXED INCOME FUND
Unaudited Statements of Comprehensive Income
For the six-month periods ended June 30, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
Average redeemable units outstanding		
CLASS A	\$ 1	\$ 1
CLASS N	\$ 624,584	\$ 759,247
CLASS O	\$ 6,621,526	\$ 7,536,005
Increase (decrease) in net assets attributable to holders of redeemable units per unit		
CLASS A	\$ 0.11	\$ 0.38
CLASS N	\$ 0.08	\$ 0.18
CLASS O	\$ 0.08	\$ 0.19

DAVIS-REA FIXED INCOME FUND
Unaudited Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
For the six-month periods 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	\$	75,441,460	\$	84,279,229
Increase (decrease) in net assets attributable to holders of redeemable units		596,664		1,548,594
Distributions paid or payable to holders of redeemable units				
From net investment income		(1,330,555)		(1,432,453)
From net realized capital gains		-		-
Return of capital		-		-
Total distributions to holders of redeemable units		(1,330,555)		(1,432,453)
Redeemable unit transactions				
Amount received from the issuance of units		2,975,010		2,071,820
Amount received from reinvestment of distributions		1,329,205		1,428,755
Amount paid on redemptions of units		(10,922,331)		(7,351,728)
Net increase (decrease) from redeemable unit transactions		(6,618,116)		(3,851,153)
Net increase (decrease) in net assets attributable to holders of redeemable units		(7,352,007)		(3,735,012)
Net assets attributable to holders of redeemable units at end of period	\$	68,089,453	\$	80,544,217

CLASS A	2018		2017	
Net assets attributable to holders of redeemable units at beginning of period	\$	14	\$	13
Increase (decrease) in net assets attributable to holders of Class A units		-		-
Net increase (decrease) in net assets attributable to holders of redeemable units		-		-
Net assets attributable to holders of redeemable units at end of period	\$	14	\$	13

CLASS N	2018		2017	
Net assets attributable to holders of redeemable units at beginning of period	\$	6,705,832	\$	7,603,969
Increase (decrease) in net assets attributable to holders of Class N units		52,622		140,578
Distributions paid or payable to unitholders				
From net investment income		(113,745)		(130,390)
Total distributions to holders of redeemable units		(113,745)		(130,390)
Redeemable unit transactions				
Amount received from the issuance of units		-		1
Amount received from reinvestment of distributions		113,745		130,390
Amount paid on redemptions of units		(861,000)		(397,500)
Net increase (decrease) from redeemable unit transactions		(747,255)		(267,109)
Net increase (decrease) in net assets attributable to holders of redeemable units		(808,378)		(256,921)
Net assets attributable to holders of redeemable units at end of period	\$	5,897,454	\$	7,347,048

DAVIS-REA FIXED INCOME FUND
Unaudited Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
For the six-month periods ended June 30, 2018 and 2017
(Expressed in Canadian Dollars)

CLASS O	2018	2017
Net assets attributable to holders of redeemable units at beginning of period	\$ 68,735,614	\$ 76,675,247
Increase (decrease) in net assets attributable to holders of Class O units	544,042	1,408,016
Distributions Paid or Payable to Unitholders		
From net investment income	(1,216,810)	(1,302,063)
From net realized capital gains	-	-
Return of capital	-	-
Total distributions to holders of redeemable units	(1,216,810)	(1,302,063)
Changes Due to Unitholder Transactions		
Amount received from the issuance of units	2,975,010	2,071,819
Amount received from reinvestment of distributions	1,215,460	1,298,365
Amount paid on redemptions of units	(10,061,331)	(6,954,228)
Net increase (decrease) from redeemable unit transactions	(5,870,861)	(3,584,044)
Net increase (decrease) in net assets attributable to holders of redeemable units	(6,543,629)	(3,478,091)
Net assets attributable to holders of redeemable units at end of period	\$ 62,191,985	\$ 73,197,156

DAVIS-REA FIXED INCOME FUND
Unaudited Statements of Cash Flows
For the six-month periods ended June 30, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
Cash flows from operating activities		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 596,664	\$ 1,548,594
Adjustments for:		
Foreign exchange (gain) loss on cash	128	(13,154)
Net realized (gain) loss on sale of investments	123,106	171,788
Net change in unrealized (appreciation) depreciation of investments	598,766	(250,489)
Purchase of investments	(16,068,253)	(49,862,482)
Proceeds from the sale of investments	23,313,131	50,292,065
Interest receivable	(28,559)	33,895
Dividends receivable	13,257	(29,750)
Other liabilities	(21,263)	(6,235)
	8,526,977	1,884,232
Financing activities		
Amount received from the issuance of units	2,929,010	2,046,820
Amount received from reinvestment of distributions	-	
Amount paid on redemptions of units	(10,922,331)	(7,397,328)
Distributions paid to unitholders	(1,350)	(1,786)
	(7,994,671)	(5,352,294)
Increase (decrease) in cash during the period	532,306	(3,468,062)
Change in unrealized foreign exchange on cash	(128)	13,154
Cash at beginning of period	410,719	5,228,100
Cash at end of period	\$ 942,897	\$ 1,773,192
Supplemental Disclosure		
Interest received	\$ 1,196,602	\$ 1,375,881
Dividends received, net of withholding taxes	160,998	164,710

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

	Number of Shares / Par Value	Average Cost*	Fair Value
CORPORATE BONDS - 77.30%			
AG Growth International Inc., Convertible, Callable, 4.500%, 2022/12/31	1,000,000	1,000,000	1,004,900
Air Canada, Callable, 4.750%, 2023/10/06	2,000,000	2,000,000	2,077,500
Alcanna Inc., Convertible, Callable, 4.700%, 2022/01/31	1,000,000	1,000,000	1,015,000
Alimentation Couche-Tard Inc., Callable, 3.056%, 2024/07/26	500,000	500,000	490,501
Allied Properties REIT, Series 'C', Callable, 3.636%, 2025/04/21	2,000,000	2,000,000	1,951,108
Artis REIT, Series 'A', 3.753%, 2019/03/27	2,000,000	2,012,420	2,016,785
Brookfield Asset Management Inc., Callable, 3.950%, 2019/04/09	1,000,000	1,022,470	1,012,107
Brookfield Infrastructure Finance ULC, Callable, 3.315%, 2024/02/22	1,000,000	1,000,000	991,715
Brookfield Infrastructure Finance ULC, Callable, 3.452%, 2022/03/11	2,000,000	2,000,000	2,020,846
Brookfield Renewable Partners ULC, Series '10', Callable, 3.630%, 2027/01/15	1,500,000	1,499,250	1,482,283
Cameco Corp., Series 'D', Callable, 5.670%, 2019/09/02	1,500,000	1,563,375	1,543,510
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 3.000%, 2024/10/28	1,000,000	1,003,170	1,003,963
Canadian Natural Resources Ltd., Callable, 3.420%, 2026/12/01	500,000	500,000	489,948
Canadian Natural Resources Ltd., 2.050%, 2020/06/01	800,000	799,816	790,334
Crew Energy Inc., Callable, 6.500%, 2024/03/14	3,000,000	3,000,000	2,797,499
Dollarama Inc., Series '3', Floating Rate, Restricted, 2.009%, 2021/02/01	750,000	750,440	748,028
Dollarama Inc., 2.337%, 2021/07/22	500,000	500,000	492,629
Fairfax Financial Holdings Ltd., Callable, 6.400%, 2021/05/25	2,000,000	2,232,920	2,185,571
Fairfax Financial Holdings Ltd., 4.500%, 2023/03/22	500,000	497,155	522,049
Fiera Capital Corp., Convertible, Callable, 5.000%, 2023/06/30	800,000	800,000	853,960
Ford Credit Canada Co., Floating Rate, Restricted, 2.433%, 2020/12/01	500,000	500,000	498,020
Keyera Corp., Callable, 3.934%, 2028/06/21	1,000,000	1,001,943	1,004,322
Kruger Products L.P., Callable, 6.000%, 2025/04/24	750,000	754,469	758,618
Lightstream Resources Ltd., Callable, 8.625%, 2020/02/01	2,000,000	2,230,335	-
Manulife Bank of Canada, Floating Rate, Callable, 1.975%, 2020/01/27	500,000	500,000	499,845
Mattamy Group Corp., Callable, 6.500%, 2025/10/01	500,000	500,000	499,792
Morguard Corp., Series 'B', 4.013%, 2020/11/18	3,000,000	3,033,211	3,028,109
Nuvista Energy Ltd., Restricted, Callable, 6.500%, 2023/03/02	750,000	750,000	756,719
Osisko Gold Royalties Ltd., Convertible, Callable, 4.000%, 2022/12/31	1,000,000	1,000,000	1,002,500
Parkland Fuel Corp., Callable, 5.625%, 2025/05/09	600,000	600,000	603,625
Parkland Fuel Corp., Callable, 5.750%, 2024/09/16	1,000,000	1,011,000	1,012,500
Pembina Pipeline Corp., Callable, 2.990%, 2024/01/22	1,000,000	1,002,990	982,724
Precision Drilling Corp., Callable, 7.125%, 2026/01/15	1,000,000	1,288,898	1,349,954
RioCan REIT, Series 'V', 3.746%, 2022/05/30	1,000,000	1,063,160	1,021,966
Rogers Communications Inc., Callable, 3.000%, 2023/03/15	2,000,000	2,618,605	2,567,627
Royal Bank of Canada, 1.400%, 2019/04/26	1,000,000	999,680	994,960
Royal Bank of Canada, 1.583%, 2021/09/13	2,000,000	2,000,000	1,930,191
SNC-Lavalin Group Inc., Series '5', Floating Rate, 2.122%, 2019/06/06	500,000	500,000	500,545
Sobeys Inc., 3.520%, 2018/08/08	1,000,000	1,007,700	1,001,761
Suncor Energy Inc., Series '5', Callable, 3.000%, 2026/09/14	500,000	498,755	489,521
Suncor Energy Inc., Series '5', Callable, 4.340%, 2046/09/13	800,000	799,200	844,875
Superior Plus L.P., Callable, 5.250%, 2024/02/27	500,000	505,811	486,354

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

	Number of Shares / Par Value	Average Cost*	Fair Value
TD Capital Trust III, Variable Rate, Perpetual, 7.243%, 2018/12/31	3,000,000	3,510,300	3,074,556
Toronto-Dominion Bank (The), 1.680%, 2021/06/08	750,000	733,575	732,428
Toronto-Dominion Bank (The), 3.005%, 2023/05/30	1,000,000	1,000,000	1,005,616
TransCanada PipeLines Ltd., Callable, 3.390%, 2028/03/15	500,000	499,165	498,113
		55,589,813	52,635,477
Provincial and Municipal Bonds - 2.22%			
Municipal Finance Authority of British Columbia, 2.950%, 2024/10/14	500,000	534,080	506,685
Province of Quebec, 2.750%, 2025/09/01	1,000,000	1,007,510	1,005,687
		1,541,590	1,512,372
TOTAL CANADIAN BONDS		57,131,403	54,147,849
FOREIGN BONDS - 12.31%			
Apple Inc., Callable, 2.513%, 2024/08/19	2,000,000	2,001,200	1,949,858
KeyCorp., Callable, 2.300%, 2018/12/13	800,000	1,024,211	1,050,834
McDonald's Corp., Callable, 3.125%, 2025/03/04	1,000,000	997,780	992,360
United States Treasury Inflation Indexed Bond, 0.750%, 2045/02/15	2,500,000	3,246,462	3,399,878
Walt Disney Co. (The), 2.758%, 2024/10/07	1,000,000	1,000,000	986,106
TOTAL FOREIGN BONDS		8,269,653	8,379,036
TOTAL BONDS - 91.83%		65,401,056	62,526,885
CANADIAN EQUITIES - 6.64%			
Energy - 3.73%			
AltaGas Ltd., Subscription Receipts	93,600	2,824,046	2,541,240
		2,824,046	2,541,240
Real Estate - 2.91%			
Automotive Properties REIT	189,720	1,608,349	1,980,677
		1,608,349	1,980,677
TOTAL EQUITIES - 6.64%		4,432,395	4,521,917
TOTAL COST AND FAIR VALUE OF INVESTMENTS - 98.47%		69,833,451	67,048,802
TRANSACTION COSTS INCLUDED IN AVERAGE COST		-	
TOTAL INVESTMENTS - 98.47%		69,833,451	67,048,802
OTHER ASSETS AND LIABILITIES - 1.53%			1,040,651
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS 100.00%			68,089,453

*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 Fixed Income Fund

Notes to the Financial Statements

June 30, 2018

(Expressed in Canadian Dollars)

1. ESTABLISHMENT OF TRUST

The Davis-Rea Fixed Income Fund, (the "Fund") is an open ended unincorporated unit trust that was established under the laws of the Province of Ontario by a declaration of trust dated May 31, 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 F, Class N and Class O units on June 19, 2011. Prior to March 18, 2013, Class A units of the Fund were intended for accredited investors or investors investing at least \$150,000 in units of the Fund. Class F units of the Fund were intended for investors who participated 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 18, 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 A units of the Fund, the investor is a client of the Manager, 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

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 Fund 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 Fund's 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

Davis-Rea Fixed Income Fund

Notes to the Financial Statements

June 30, 2018

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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 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 offering memorandum.

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 income or expense and dividend income 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 receivable for investments sold, accrued interest receivable, accrued dividends receivable and cash.

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 accounts payable and accrued liabilities, redemptions payable and distributions payable to holders of redeemable units.

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.

Davis-Rea Fixed Income Fund

Notes to the Financial Statements

June 30, 2018

(Expressed in Canadian Dollars)

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 Statement of Comprehensive Income on debt securities at FVTPL is recognized on an 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 11.

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.

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Commissions and Other Transaction Costs

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

Valuation of Fund Units

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

Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit

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

Other Assets and Liabilities

Accrued interest receivable and accrued dividends receivable are recorded at amortized cost. Similarly, redemptions payable, accounts payable and accrued liabilities and distributions payable to holders of redeemable units are recorded at amortized cost. These balances are short term in nature, therefore, amortized cost approximates fair value for these assets and liabilities.

Cash

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

Redeemable Participating Shares/Units

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Fair Value Measurement and Securities not Quoted in an Active Market

When the Fund holds financial instruments that are not quoted in active markets, the fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources. Broker quotes as obtained from the pricing sources may be indicative and not executable. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate. Models use observable data, to the extent practicable. However, areas such as credit risk, volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of

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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. 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 10, the Fund endeavors to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions. There were no Class B or Class F units outstanding as at June 30, 2018 and December 31, 2017.

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

	Class A	Class N	Class O
	Number	Number	Number
	of Units	of Units	of Units
Balance, beginning of period	1	685,401	7,011,631
Units issued	-	-	305,396
Units redeemed	-	(88,548)	(1,036,191)
Reinvestments	-	11,775	125,598
Balance, end of period	1	608,628	6,406,434

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

	Class A	Class N	Class O
	Number	Number	Number
	of Units	of Units	of Units
Balance, beginning of year	1	772,297	7,772,031
Units issued	-	-	415,970
Units redeemed	-	(113,440)	(1,442,963)
Reinvestments	-	26,544	266,593
Balance, end of year	1	685,401	7,011,631

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6. DISTRIBUTIONS PER UNIT

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

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

	2018	2017
From net investment income	\$1,330,555	\$1,432,453

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 and Class F is computed at 1.75% and 1.50% respectively, per annum of the net asset value of the Fund plus applicable taxes. The management fee is 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 exchange amount, which is the amount of consideration established and agreed to by the related parties.

Custodian fees are 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 assets of the Fund. In addition, transaction fees are payable to the Custodian.

9. ECONOMIC DEPENDENCE

As at June 30, 2018, 19.26% of total net assets are held by one investor (December 31, 2017 –17.74%).

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10. FINANCIAL INSTRUMENTS AND RISK DISCLOSURES

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

The Fund's overall risk management program seeks to minimize the potentially adverse effect of risk on the Fund's financial performance in a manner consistent with the Fund's investment objectives. The risk management practices include monitoring compliance to investment guidelines. The Manager manages the potential effects of these

financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio advisors that regularly monitor the Fund's positions and market events, and diversify investment portfolios within the constraints of the investment guidelines.

Credit Risk

Credit risk is the risk that a security issuer or counterparty to a financial instrument will fail to 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 relating to debt instruments of the Fund. The Fund's maximum exposure to credit risk in any one investment relates to the United States Treasury Inflation Indexed Bond in the amount of \$3,399,878 which represents 4.99% of the net assets of the Fund (December 31, 2017 – Fairfax Financial Holdings in the amount of \$4,296,766 which represented 5.70% of the net assets of the Fund).

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

Debt securities by credit rating*	June 30, 2018	December 31, 2017
AAA	7.20	7.02
AA	8.65	7.90
A	6.70	10.96
BBB	46.93	41.97
Below BBB	16.66	16.53
Unrated	5.69	4.03
Total	91.83	88.41

*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.

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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.

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 \$3,180,167 (December 31, 2017 - \$3,827,054). In practice, the actual results may differ from this sensitivity analysis and the difference could be material. The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity as at June 30, 2018 and December 31, 2017.

	June 30, 2018	December 31, 2017
Less than 1 year	\$ 9,651,548	\$ 4,154,500
1-3 years	10,025,845	7,986,732
3-5 years	14,194,003	14,140,716
>5 years	28,655,489	40,415,428
Total	\$ 62,526,885	\$ 66,697,376

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 \$226,096 (December 31, 2017 - \$349,683) 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.

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Portfolio by Asset Type	Percentage of Net Assets (%)	
	June 30, 2018	December 31, 2017
Corporate Bonds	77.3	69.5
Provincial and Municipal Bonds	2.2	9.2
Foreign Bonds	12.3	9.7
Canadian Equities		
Energy	3.7	5.5
Real Estate	2.9	3.5
Other Assets and Liabilities, Net	1.5	2.6
	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	Total
U.S. Dollar	\$ 13,059	\$ 91,325	\$ 8,368,294	\$ 8,472,678

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

	Cash	Receivables	Investments	Total
U.S. Dollar	\$ 16,303	\$ 41,102	\$ 7,200,189	\$ 7,257,594

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 \$423,634 (December 31, 2017 - \$362,880). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

11. 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.

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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 Bonds	\$ -	\$ 54,147,849	\$ -	\$ 54,147,849
Canadian Equities	4,521,917	-	-	4,521,917
Foreign Bonds	-	8,379,036	-	8,379,036
	4,521,917	62,526,885	-	67,048,802

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 Bonds	\$ -	\$ 59,410,311	\$ -	\$ 59,410,311
Canadian Equities	6,813,660	-	-	6,813,660
Foreign Bonds	-	7,287,065	-	7,287,065
	6,813,660	66,697,376	-	73,511,036

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

12. 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 \$3,518 (June 30, 2017 - \$1,128).

13. 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.

14. 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