

Davis-Rea Enhanced Income Fund

Financial Statements

(Expressed in Canadian Dollars)

**For the Years Ended December 31, 2018 and
2017**



INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Davis-Rea Enhanced Income Fund

Opinion

We have audited the financial statements of Davis-Rea Enhanced Income Fund, (the Fund), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017 and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and December 31, 2017 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 27, 2019
Toronto, Ontario

Davis-Rea Enhanced Income Fund
Statements of Financial Position
As at December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
Assets		
Cash	\$ 952,389	\$ -
Investments at fair value	40,949,561	41,118,619
Receivable for investments sold	-	1,029,139
Accrued interest receivable	345,342	297,007
Accrued dividends receivable	-	9,370
Subscriptions receivables	320,000	-
Total assets	42,567,292	42,454,135

Liabilities

Bank overdraft	-	12,316
Investments sold short	25,017,017	23,736,417
Redemptions Payable	509,958	-
Accrued management fees	61,489	18,933
Accrued interest payable	57,742	61,068
Other accrued expenses	18,296	67,637
Distributions payable to unitholders	6,892	-
Total liabilities	25,671,394	23,896,371
Net assets attributable to holders of redeemable units (Note 5)	\$ 16,895,898	\$ 18,557,764

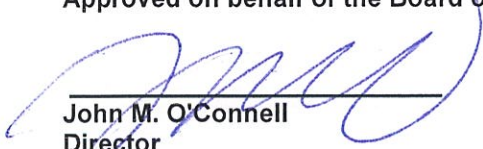
Net assets attributable to holders of redeemable units per class (Note 5)

CLASS A	\$ 16,895,898	\$ 18,557,764
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Net assets attributable to holders of redeemable units per unit

CLASS A	\$ 9.49	\$ 10.46
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Approved on behalf of the Board of Directors of Davis Rea Ltd., the Manager



John M. O'Connell
Director
Davis Rea Ltd.



P. Zachary Curry
Director
Davis Rea Ltd.

Davis-Rea Enhanced Income Fund
Statements of Comprehensive Income
Years and Period Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
Investment Income		
Interest for distribution purposes	\$ 1,564,537	\$ 1,454,524
Dividend income	43,627	116,260
	1,608,164	1,570,784
Net Gain (Loss) on Investments		
Net realized gain (loss)	81,850	(99,011)
Change in unrealized appreciation (depreciation) of investments	(1,273,442)	741,539
Net other gain (loss)	5,997	(4,859)
Net foreign exchange gain on cash	844	4,054
	(1,184,751)	641,723
Net Investment Income	423,413	2,212,507
Expenses		
Audit fees	4,995	5,847
Commissions expense	2,200	2,859
Custodial fees	2,844	3,366
Fund administration expense	22,757	27,406
Harmonized sales tax	31,941	34,673
Interest expense	-	8,859
Interest expense, short positions	474,843	421,836
Legal fees	36	983
Management fees	226,852	229,994
Performance fees	-	55,568
Security lending expense	101,923	75,507
Trustee fees	2,502	2,475
Unitholder communication fees	4,995	6,087
	875,888	875,460
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (452,475)	\$ 1,337,047
Increase (decrease) in net assets attributable to holders of redeemable units per class		
CLASS A	\$ (452,475)	\$ 1,337,047
Average redeemable units outstanding		
CLASS A	1,754,271	1,769,244
Increase (decrease) in net assets attributable to holders of redeemable units per unit		
CLASS A	\$ (0.26)	\$ 0.76

Davis-Rea Enhanced Income Fund**Statements of Changes in Net Assets Attributable to Holders of Redeemable Units****Years Ended December 31, 2018 and 2017**

(Expressed in Canadian Dollars)

Total	2018	2017
Net assets attributable to holders of redeemable units at beginning of year	\$ 18,557,764	\$ 18,119,444
Increase (decrease) in net assets attributable to holders of redeemable units	(452,475)	1,337,047
Distributions paid or payable to holders of redeemable units		
From net investment income	(1,221,779)	(695,340)
Total distributions to holders of redeemable units	(1,221,779)	(695,340)
Redeemable unit transactions		
Amount received from the issuance of units	653,400	603,060
Amount received from reinvestment of distributions	1,209,245	688,903
Amount paid on redemptions of units	(1,850,257)	(1,495,350)
Net increase (decrease) from redeemable unit transactions	12,388	(203,387)
Net increase (decrease) in net assets attributable to holders of redeemable units	(1,661,866)	438,320
Net assets attributable to holders of redeemable units at end of year	\$ 16,895,898	\$ 18,557,764
Class A	2018	2017
Net assets attributable to holders of redeemable units at beginning of year	\$ 18,557,764	\$ 18,119,444
Increase (decrease) in net assets attributable to holders of Class A units	(452,475)	1,337,047
Distributions Paid or Payable to Unitholders		
From net investment income	(1,221,779)	(695,340)
Total distributions to holders of redeemable units	(1,221,779)	(695,340)
Redeemable unit transactions		
Amount received from the issuance of units	653,400	603,060
Amount received from reinvestment of distributions	1,209,245	688,903
Amount paid on redemptions of units	(1,850,257)	(1,495,350)
Net increase (decrease) from redeemable unit transactions	12,388	(203,387)
Net increase (decrease) in net assets attributable to holders of redeemable units	(1,661,866)	438,320
Net assets attributable to holders of redeemable units at end of year	\$ 16,895,898	\$ 18,557,764

Davis-Rea Enhanced Income Fund
Statements of Cash Flows
Years and Period Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
Cash provided by (used in)		
Operations		
Increase (decrease) in net assets attributable to holder of redeemable units	\$ (452,475)	\$ 1,337,047
Adjustments for:		
Net realized loss (gain) on sale of investments	(81,850)	99,011
Net change in unrealized appreciation (depreciation) of investments	1,273,442	(741,539)
Purchase of investments	(154,343,149)	(91,263,873)
Proceeds from the sale of investments	155,630,354	95,852,079
Interest receivable	(48,335)	(54,389)
Dividends receivable	9,370	(6,709)
Other assets	-	392
Other liabilities	(10,111)	6,568
Net foreign exchange gain on cash	(5,997)	(4,054)
	1,971,249	5,224,533
Financing activities		
Amount received from the issuance of units	333,400	613,060
Amount paid on redemptions of units	(1,340,299)	(2,136,824)
Distributions paid to unitholders	(5,642)	(6,437)
	(1,012,541)	(1,530,201)
Increase in bank indebtedness during the year	958,708	3,694,332
Change in unrealized foreign exchange gain on cash	5,997	4,054
Bank overdraft, beginning of year	(12,316)	(3,710,702)
Cash (bank overdraft), end of year	\$ 952,389	\$ (12,316)

Supplemental Disclosure

Interest received	\$ 1,516,202	\$ 1,400,135
Interest paid	\$ 478,169	\$ 426,460
Dividends received, net of withholding taxes	\$ 52,997	\$ 109,551

Davis-Rea Enhanced Income Fund
Schedule of Investment Portfolio
As at December 31, 2018
(Expressed in Canadian Dollars)

	Number of Shares / Par Value	Average Cost* \$	Fair Value \$
INVESTMENTS HELD LONG - 242.37%			
CANADIAN BONDS - 201.97%			
Corporate Bonds - 201.97%			
AG Growth International Inc., Convertible, Callable, 4.50%, 2022/12/31	1,000,000	1,000,000	990,000
Air Canada, Callable, 4.75%, 2023/10/06	750,000	750,000	760,313
Alimentation Couche-Tard Inc., Callable, 3.06%, 2024/07/26	500,000	500,000	483,654
Allied Properties REIT, Series 'B', Callable, 3.93%, 2022/11/14	600,000	600,000	605,688
Allied Properties REIT, Series 'C', Callable, 3.63%, 2025/04/21	1,000,000	1,000,000	963,958
AltaLink L.P., Callable, 2.75%, 2026/05/29	1,000,000	1,000,000	984,507
Artis REIT, Series 'A', 3.75%, 2019/03/27	1,000,000	1,025,840	1,002,577
Bank of Montreal, 2.89%, 2023/06/20	500,000	499,910	499,725
Brookfield Infrastructure Finance ULC, Callable, 3.31%, 2024/02/22	500,000	500,000	488,877
Brookfield Infrastructure Finance ULC, Callable, 4.19%, 2028/09/11	750,000	750,000	742,742
Brookfield Property Finance ULC, 4.12%, 2021/10/19	600,000	600,000	605,727
Brookfield Property Finance ULC, Callable, 4.35%, 2023/07/03	500,000	500,000	501,659
Cameco Corp., Series 'D', Callable, 5.67%, 2019/09/02	1,000,000	1,031,925	1,018,148
Canadian Imperial Bank of Commerce, 2.90%, 2021/09/14	500,000	499,985	501,670
CCL Industries Inc., Series '1', Callable, 3.86, 2028/04/13	500,000	500,000	501,120
CES Energy Solutions Corp., Callable, 6.38%, 2024/10/21	500,000	500,000	468,229
Cominar REIT, Series '7', 3.62%, 2019/06/21	600,000	603,300	601,561
Crew Energy Inc., Callable, 6.50%, 2024/03/14	750,000	750,000	633,125
Crombie REIT, Series 'E', Restricted, Callable, 4.80%, 2025/01/31	375,000	374,985	380,562
Daimler Canada Finance Inc., 1.78%, 2019/08/19	400,000	396,920	398,003
Dollarama Inc., Series '3', Floating Rate, 2.48%, 2021/02/01	750,000	750,440	739,628
Dollarama Inc., Restricted, Callable, 3.55%, 2023/11/06	500,000	497,685	499,255
Federated Co-Operatives Ltd., Restricted, Callable, 3.91%, 2025/06/17	1,000,000	1,000,000	978,893
Fiera Capital Corp., Convertible, Callable, 5.00%, 2023/06/30	200,000	200,000	202,000
First Capital Realty Inc., Series 'T', Callable, 3.60%, 2026/05/06	500,000	500,000	484,622
Ford Credit Canada Co., 2.45%, 2020/05/07	375,000	369,150	369,213
Ford Credit Canada Co., Floating Rate, 2.93%, 2020/12/01	500,000	500,000	490,280
Keyera Corp., Callable, 3.93%, 2028/06/21	1,000,000	1,001,943	984,897
Kraft Canada Inc., Callable, 2.70%, 2020/07/06	500,000	500,350	498,670
Kruger Products L.P., Callable, 6.00%, 2025/04/24	400,000	402,406	384,507
Manulife Bank of Canada, Floating Rate, Callable, 2.53%, 2020/01/27	250,000	250,000	249,318
Mattamy Group Corp., Callable, 6.50%, 2025/10/01	500,000	500,000	472,708
Morguard Corp., Series 'B', 4.01%, 2020/11/18	1,500,000	1,545,360	1,507,901
Morguard Corp., 4.09%, 2021/05/14	400,000	400,000	400,641
Nuvista Energy Ltd., Callable, 6.50%, 2023/03/02	500,000	500,000	476,563
Osisko Gold Royalties Ltd., Convertible, Callable, 4.00%, 2022/12/31	1,000,000	1,000,000	989,900
Parkland Fuel Corp., Callable, 5.50%, 2021/05/28	1,500,000	1,543,125	1,519,687
Precision Drilling Corp., Callable, 7.12%, 2026/01/15	1,000,000	1,295,749	1,172,934
RioCan REIT, Series 'Q', Callable, 3.85%, 2019/06/28	500,000	506,325	503,229
RioCan REIT, 2.19%, 2020/08/26	1,000,000	1,000,000	987,581
SNC-Lavalin Group Inc., Series '5', Floating Rate, 2.61%, 2019/06/06	500,000	500,000	500,040
SNC-Lavalin Group Inc., Series '1', 2.69%, 2020/11/24	500,000	500,000	496,052
Suncor Energy Inc., Callable, 5.39%, 2037/03/26	1,000,000	1,090,690	1,141,647
Superior Plus L.P., Callable, 5.25%, 2024/02/27	500,000	505,811	471,198
Toronto Hydro Corp., Series '12', Callable, 2.52%, 2026/08/25	1,000,000	999,840	970,634
Toronto-Dominion Bank (The), 2.45%, 2019/04/02	500,000	500,500	500,412
Toronto-Dominion Bank (The), 2.05%, 2021/03/08	750,000	736,620	740,456
Toronto-Dominion Bank (The), 1.68%, 2021/06/08	500,000	489,050	489,817
Toronto-Dominion Bank (The), 3.01%, 2023/05/30	500,000	500,000	502,968
Toronto-Dominion Bank (The), Variable Rate, Callable, 3.59%, 2028/09/14	500,000	500,000	498,035
TransCanada PipeLines Ltd., Callable, 3.39%, 2028/03/15	500,000	499,165	485,992
Vesta Energy Corp., Callable, 8.13%, 2023/07/24	300,000	300,000	282,938
TOTAL CANADIAN BONDS		34,767,074	34,124,461

Davis-Rea Enhanced Income Fund
Schedule of Investment Portfolio (Cont'd)
As at December 31, 2018
(Expressed in Canadian Dollars)

	Number of Shares / Par Value	Average Cost* \$	Fair Value \$
FOREIGN BONDS - 40.40%			
Apple Inc., Callable, 2.51%, 2024/08/19	1,000,000	1,000,000	972,467
Aroundtown SA, Callable, 4.63%, 2025/09/18	500,000	497,930	497,760
AT&T Inc., 3.83%, 2020/11/25	1,000,000	1,064,440	1,015,222
AT&T Inc., Callable, 4.00%, 2025/11/25	750,000	748,020	747,793
Bank of America Corp., Floating Rate, 3.27%, 2019/04/01	500,000	670,246	683,959
Goldman Sachs Group Inc. (The), Variable Rate, Callable, 3.30%, 2025/10/31	1,000,000	1,000,000	970,512
Walt Disney Co. (The), 2.76%, 2024/10/07	1,000,000	1,000,000	984,286
Wells Fargo & Co., 2.98%, 2026/05/19	1,000,000	1,000,000	953,101
TOTAL FOREIGN BONDS		6,980,636	6,825,100
TOTAL BONDS - 242.37%		41,747,710	40,949,561
TOTAL INVESTMENTS HELD LONG		41,747,710	40,949,561
INVESTMENT SOLD SHORT - (148.07%)			
CANADIAN BONDS - (148.07%)			
Government of Canada and Guaranteed Bonds - (148.07%)			
Government of Canada, 1.75%, 2019/03/01	(865,000)	(903,281)	(865,238)
Government of Canada, 3.75%, 2019/06/01	(1,100,000)	(1,116,093)	(1,109,114)
Government of Canada, 3.50%, 2020/06/01	(2,469,000)	(2,748,114)	(2,526,062)
Government of Canada, 0.75%, 2020/09/01	(1,836,000)	(1,803,162)	(1,803,218)
Government of Canada, 0.75%, 2021/03/01	(1,134,000)	(1,095,247)	(1,107,393)
Government of Canada, 3.25%, 2021/06/01	(10,000)	(11,245)	(10,325)
Government of Canada, 0.75%, 2021/09/01	(1,124,000)	(1,076,281)	(1,091,643)
Government of Canada, 2.75%, 2022/06/01	(523,000)	(571,615)	(538,085)
Government of Canada, 1.50%, 2023/06/01	(2,825,000)	(2,805,042)	(2,779,430)
Government of Canada, 2.00%, 2023/09/01	(1,000,000)	(990,690)	(1,005,175)
Government of Canada, 2.50%, 2024/06/01	(3,793,000)	(3,938,069)	(3,909,424)
Government of Canada, 2.25%, 2025/06/01	(3,035,000)	(3,103,724)	(3,096,344)
Government of Canada, 1.50%, 2026/06/01	(1,970,000)	(1,949,709)	(1,911,493)
Government of Canada, 1.00%, 2027/06/01	(1,025,000)	(929,590)	(950,195)
Government of Canada, 2.00%, 2028/06/01	(1,606,000)	(1,561,883)	(1,611,043)
Government of Canada, 2.75%, 2048/12/01	(625,000)	(685,868)	(702,835)
TOTAL CANADIAN BONDS		(25,289,613)	(25,017,017)
TOTAL INVESTMENTS SOLD SHORT		(25,289,613)	(25,017,017)
TOTAL COST AND FAIR VALUE OF INVESTMENTS - 94.30%		16,458,097	15,932,544
OTHER ASSETS AND LIABILITIES - 5.70%			963,354
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS - 100.00%			16,895,898

*Cost includes transaction costs

Percentage shown relates to investments at fair value to Net Assets Attributable to Holders of Redeemable Units (Net Assets) as at December 31, 2018.

Davis-Rea Enhanced Income Fund

Notes to Financial Statements

December 31, 2018 and 2017

(Expressed in Canadian Dollars)

1. ESTABLISHMENT OF TRUST

The Davis-Rea Enhanced Income Fund (the "Fund") is an open ended unincorporated unit trust that was established under the laws of the Province of Ontario by a declaration of trust dated May 31, 2015. CIBC Mellon Trust Company is the trustee (the "Trustee") and the custodian (the "Custodian") of the Fund. Davis-Rea Ltd. is the manager (the "Manager") of the Fund. The Fund offers Class A, B, F, N and O units. Class A and Class B units are intended for accredited investors or an investor investing at least \$500,000 in units of a class of the Fund. Class F units of the Fund are intended for investors who participate in a fee based program through their dealer. Class O units were designed exclusively for institutional investors and individual investors that have been approved by the Manager. Class N units can only be purchased by another Davis-Rea Fund.

The financial statements of the Fund for the year ended December 31, 2018 were authorized for issue on March 27, 2019.

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.

The following accounting standard is most relevant to the Fund:

New Accounting Standards Adopted

The Fund has adopted the relevant new or amended accounting standard and interpretation issued by the IASB that are mandatory for the current reporting period. Any new or amended accounting standards or interpretations that are not yet mandatory have not been early adopted.

The following accounting standard is most relevant to the Fund:

IFRS 9 'Financial Instruments'

Effective January 1, 2018, the Fund adopted and retrospectively applied International Financial Reporting Standards ("IFRS") 9, Financial Instruments ("IFRS 9"). IFRS 9 replaces International Accounting Standard ("IAS") 39, "Financial Instruments: Recognition and Measurement" and gives rise to new requirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets, as well as requirements for hedge accounting. The new standard requires assets to be classified based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement categories are amortized cost, fair value through profit and loss ("FVTPL") or fair value through other comprehensive income ("FVOCI").

Davis-Rea Enhanced Income Fund
Notes to Financial Statements
December 31, 2018 and 2017
(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (Cont'd)

IFRS 9 'Financial Instruments' (Cont'd)

The Fund manages the portfolio of financial assets and evaluates its performance on a fair value basis. Decisions are made based on the assets' fair values and assets are managed to realize these fair values. Upon adoption of IFRS 9, the Fund's financial assets and financial liabilities previously classified as FVTPL under IAS 39 continued to be classified as fair value through profit and loss. There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon adoption of IFRS 9. There was no material impact on adoption from the application of the new impairment model.

The significant accounting policies set out below arise from the adoption of this new standard and is applicable retrospectively as of January 1, 2018 without restatement of comparative periods. Consequently, the information presented for fiscal 2017 is in accordance with the accounting policies described in the Annual Financial Statements for the year ended December 31, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in all the years presented, unless otherwise stated.

Financial Instruments

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost 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.

In accordance with IFRS 9, the Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at FVTPL.

Gains and losses arising from changes in the fair value of financial assets or financial liabilities at FVTPL are presented in the Statement of Comprehensive Income within 'Change in unrealized appreciation (depreciation)' in the period in which they arise. Dividend income from financial assets at FVTPL is recognized when the Fund's right to receive payments is established. Interest income, dividend income and dividend expense on short sales of equity securities are recorded separately in the Statement of Comprehensive Income within 'interest for distribution purposes', 'dividend income' and 'dividend expense', respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments (Cont'd)

All other financial assets and liabilities not measured at FVTPL are measured at amortized cost. These financial instruments are shown at the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The balances are shortterm in nature; therefore, amortized cost approximates fair value for these financial assets and liabilities.

Impairment of Financial Assets

The Fund recognises a loss allowance for expected credit losses on financial assets which are either measured at amortized cost or FVOCI. The measurement of the loss allowance depends upon the company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate. A significant increase in credit risk is defined by the Fund as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

Investment Transactions and Income Recognition

The accrual method of recording income and expenses is followed by the Fund. Dividend income is recognized when the right to receive payment is established. Distributions from income trusts are recognized on the exdistribution 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. Net realized gains and losses and change in unrealized appreciation/depreciation of investments are determined using an average cost basis. 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Valuation of Investments

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

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

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

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

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

Distributions

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

Foreign Currency Translation

The Fund's subscriptions and redemptions are denominated in Canadian dollars, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 the 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 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

New Accounting Standards and Interpretations Not Yet Mandatory or Early Adopted

Accounting Standards that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Fund for the annual reporting period ended December 31, 2018. These new standards which include IFRS 16 Leases is not expected to have any impact on the Fund's financial statements.

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.

5. REDEEMABLE UNITS

The capital of the Fund is represented by Class A issued redeemable units with no par value. Unitholders are entitled to distributions, if any, and to payment of a proportionate share of the net assets based on the Fund's net asset value per unit upon redemption. The Fund has no restrictions or specific capital requirements on the subscription and redemption of units. Capital movements are disclosed in the Statements of Changes in Net Assets Attributable to Holders of Redeemable Units. In accordance with the investment strategies and risk management policies outlined in Note 11, the Fund endeavours to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions. There were no other classes of units outstanding as at December 31, 2018 and 2017.

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5. REDEEMABLE UNITS (Cont'd)

The following table summarizes the changes in the number of Class A units for the years ended December 31, 2018 and 2017.

	2018	2017
Balance, beginning of year	1,774,888	1,794,745
Units issued	65,753	58,411
Units redeemed	(183,630)	(145,000)
Reinvestments	122,839	66,732
Balance, end of year	1,779,850	1,774,888

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 unitholder's proportionate share of the Funds less any tax required to be deducted. The Manager intends to automatically reinvest such distributions of the Fund in additional units of the same class of the Fund on behalf of each unitholder.

The Fund had the following distributions:

	2018	2017
From net investment income	\$ 1,221,779	\$ 695,340

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. There is no alternative minimum tax as at December 31, 2018 and 2017.

Capital losses incurred by the Fund cannot be allocated to unitholders but may be carried forward indefinitely to reduce future realized capital gains. As at December 31, 2018, the Fund had \$1,655 (2017 - \$57,516) capital loss carry forwards available.

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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 1.25%, 1.50% and 1.00% respectively, per annum of the net asset value of the Fund plus applicable taxes, is calculated daily, accrued monthly and payable quarterly to the Manager. Class N units of a fund can only be purchased by another fund. Class O unitholders pay management fees directly to the Manager. No management fees is charged for Class N units.

Performance fees are calculated and accrued on each valuation date and is payable to the Manager on the last valuation date of each year in respect of each class of units which is equal to 10% of the amount by which the adjusted net asset value of the class of units exceeds the high watermark.

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

9. ECONOMIC DEPENDENCE

As at December 31, 2018, 23.00% (2017 - 21.51%) of total net assets are held by one investor.

10. SOFT DOLLAR COMMISSIONS

The brokerage commissions paid on securities transactions may include "soft dollar" amounts, such as the value of research and other services provided by the broker. Although the Manager uses best efforts to determine the soft dollar portion of commissions paid on portfolio transactions of the Fund, the soft dollar portion, in some instances, is not ascertainable. The Fund paid soft dollar amounts during the year ended December 31, 2018 of \$960 (2017 - \$272).

11. 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.

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

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 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.

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

Debt securities by credit rating*	% of Net Assets	
	2018	2017
AAA	(145.17)	(127.41)
AA	19.03	5.34
A	43.59	33.66
BBB	121.06	123.72
Below BBB	42.87	43.68
Unrated	12.91	6.73
	94.29	85.72

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

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 and/or available room in a cash facility to settle these in due course.

Interest Rate Risk

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

The table below summarizes the Fund's exposure to interest rate risks by remaining term to maturity as at December 31, 2018 and 2017.

	2018	2017
Less than 1 year	\$ 3,233,578	\$ 747,378
1 - 3 years	4,073,221	1,428,379
3 - 5 years	1,988,318	3,168,786
>5 years	6,637,427	10,563,815
	\$ 15,932,544	\$ 15,908,358

As at December 31, 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 \$482,710 (2017 - \$905,914). In practice, 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.

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

Market Risk (Cont'd)

Other Price Risk (Cont'd)

As at December 31, 2018, a 5% increase or decrease in equity prices would have increased or decreased the Fund's net assets by \$796,627 (2017 - \$73,692). 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.

Portfolio by Asset Type	Percentage of Net Assets (%)	
	2018	2017
Corporate Bonds	202.0	180.6
Government of Canada Bonds	-	0.5
Foreign Bonds	40.4	32.5
Canadian Equities	-	7.9
Canadian Bonds Sold Short, Government of Canada Bonds	-	(127.9)
U.S. Equities	(148.1)	-
Other Assets and Liabilities, Net	5.7	6.4
	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 December 31, 2018:

	Cash	Receivables	Investments	Total
U.S. Dollar	\$ 73,872	\$ 50,572	\$ 1,856,894	\$ 1,981,338

Davis-Rea Enhanced Income Fund

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

Market Risk (Cont'd)

Currency Risk (Cont'd)

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	\$ 223	\$ 9,671	\$ 1,278,009	\$ 1,287,903

As at December 31, 2018, had the Canadian dollar strengthened or weakened by 5% in relation to the U.S. dollar, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$99,067 (2017 - \$63,912). 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 as at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Canadian Equities	\$ -	\$ -	\$ -	\$ -
Canadian Corporate Bonds	-	34,124,461	-	34,124,461
Canadian Federal Bonds	-	(25,017,017)	-	(25,017,017)
Foreign Bonds	-	6,825,100	-	6,825,100
	\$ -	\$ 15,932,544	\$ -	\$ 15,932,544

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

	Level 1	Level 2	Level 3	Total
Canadian Equities	\$ 1,473,844	\$ -	\$ -	\$ 1,473,844
Canadian Corporate Bonds	-	33,519,362	-	33,519,362
Canadian Federal Bonds	-	(23,643,771)	-	(23,643,771)
Foreign Bonds	-	6,032,767	-	6,032,767
	\$ 1,473,844	\$ 15,908,358	\$ -	\$ 17,382,202

There have been no transfers between level 1, 2 or 3 investments in the years or period ended December 31, 2018 or 2017, respectively.

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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 NAV per unit. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the Statements of Changes in Net Assets Attributable to Holders of Redeemable Units. The Fund endeavours to invest its subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

14. NOTICE OF FILING EXEMPTION

The Fund is considered a non-reporting issuer and as such is exempt from the filing requirements of Section 2.1 of National Instrument 81-106. Consequently, these financial statements have not been filed with the Ontario Securities Commissions.

15. STATEMENT OF PORTFOLIO TRANSACTION

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