Davis-Rea Fixed 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 Fixed Income Fund

Opinion

We have audited the financial statements of Davis-Rea Fixed 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.

Other Information

Management is responsible for the other information. The other information comprises Management Report of Fund Performance.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit,g or otherwise appears to be materially misstated.

We obtained the Management Report of Fund Performance prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

	2018	2017
Assets		
Cash	**$ 1,333,689**	$ 410,719
Investments at fair value	**61,747,468**	73,511,036
Receivable for investments sold	**-**	1,005,351
Accrued interest receivable	**577,220**	517,424
Accrued dividends receivable	**-**	43,050
Total assets	**63,658,377**	75,487,580
Liabilities		
Accounts payable and accrued liabilities	**47,483**	46,120
Total liabilities	**47,483**	46,120
Net assets attributable to holders of redeemable units (Note 5)	**$ 63,610,894**	$ 75,441,460

Net assets attributable to holders of redeemable units per class (Note 5)		
CLASS A	**$ 13**	$ 14
CLASS N	**$ 5,844,043**	$ 6,705,832
CLASS O	**$ 57,766,838**	$ 68,735,614

Net assets attributable to holders of redeemable units per unit		
CLASS A	**$ 12.02**	$ 12.60
CLASS N	**$ 9.44**	$ 9.78
CLASS O	**$ 9.46**	$ 9.80

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.

See accompanying notes

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

	2018	2017
Investment Income		
Interest income for distribution purposes	**$ 2,472,533**	$ 2,625,960
Dividend income	**177,911**	398,929
	2,650,444	3,024,889
Net Gain (Loss) on Investments		
Net realized loss	**(897,880)**	(201,566)
Net foreign exchange gain on cash	**5,273**	8,829
Net other gain	**10,236**	3,947
Change in unrealized depreciation of investments	**(1,521,432)**	(183,256)
	(2,403,803)	(372,046)
Net Investment Income	**246,641**	2,652,843
Expenses		
Administration fees	**23,843**	30,992
Audit fees	**25,797**	17,101
Custodial fees	**33,992**	51,129
Harmonized sales tax	**14,410**	17,767
Independent review committee fees	**7,825**	7,588
Interest expense	**912**	-
Legal fees	**7,322**	8,123
Registration and other filing fees	**2,310**	1,957
Transaction fees	**11,736**	3,606
Trustee fees	**4,896**	5,018
Unitholder communication fees	**18,751**	25,780
	151,794	169,061
Increase in net assets attributable to holders of redeemable units	**$ 94,847**	$ 2,483,782

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

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

CLASS A	**$**	**(1)**	$	1
CLASS N	**$**	**6,711**	$	224,363
CLASS O	**$**	**88,137**	$	2,259,418

Average redeemable units outstanding

CLASS A	**1**	1
CLASS N	**624,339**	740,078
CLASS O	**6,448,695**	7,378,126

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

CLASS A	**$**	**(0.13)**	$	0.50
CLASS N	**$**	**0.01**	$	0.30
CLASS O	**$**	**0.01**	$	0.31

Davis-Rea Fixed 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	**$ 75,441,460**	$ 84,279,229
Increase in net assets attributable to holders of redeemable units	**94,847**	2,483,782
Distributions paid or payable to holders of redeemable units		
From net investment income	**(2,540,139)**	(2,889,325)
Redeemable unit transactions		
Amount received from the issuance of units	**4,859,619**	4,141,408
Amount received from reinvestment of distributions	**2,537,605**	2,884,727
Amount paid on redemptions of units	**(16,782,498)**	(15,458,361)
Net decrease from redeemable unit transactions	**(9,385,274)**	(8,432,226)
Net decrease in net assets attributable to holders of redeemable units	**(11,830,566)**	(8,837,769)
Net assets attributable to holders of redeemable units at end of year	**$ 63,610,894**	$ 75,441,460

Class A	**2018**	2017
Net assets attributable to holders of redeemable units at beginning of year	**$ 14**	$ 13
Increase (decrease) in net assets attributable to holders of Class A units	**(1)**	1
Net assets attributable to holders of redeemable units at end of year	**$ 13**	$ 14

See accompanying notes

Davis-Rea Fixed Income Fund

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (Cont'd)
Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

Class N	**2018**	2017
Net assets attributable to holders of redeemable units at beginning of year	**$ 6,705,832**	$ 7,603,969
Increase in net assets attributable to holders of Class N units	**6,711**	224,363
Distributions paid or payable to unitholders		
From net investment income	**(223,353)**	(261,210)
Redeemable unit transactions		
Amount received from the issuance of units	**230,000**	-
Amount received from reinvestment of distributions	**223,353**	261,210
Amount paid on redemptions of units	**(1,098,500)**	(1,122,500)
Net decrease from redeemable unit transactions	**(645,147)**	(861,290)
Net decrease in net assets attributable to holders of redeemable units	**(861,789)**	(898,137)
Net assets attributable to holders of redeemable units at end of year	**$ 5,844,043**	$ 6,705,832

Class O	**2018**	2017
Net assets attributable to holders of redeemable units at beginning of year	**68,735,614**	76,675,247
Increase in net assets attributable to holders of Class O units	**88,137**	2,259,418
Distributions paid or payable to unitholders		
From net investment income	**(2,316,786)**	(2,628,115)
Redeemable unit transactions		
Amount received from the issuance of units	**4,629,619**	4,141,408
Amount received from reinvestment of distributions	**2,314,252**	2,623,517
Amount paid on redemptions of units	**(15,683,998)**	(14,335,861)
Net decrease from redeemable unit transactions	**(8,740,127)**	(7,570,936)
Net decrease in net assets attributable to holders of redeemable units	**(10,968,776)**	(7,939,633)
Net assets attributable to holders of redeemable units at end of year	**57,766,838**	68,735,614

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

	2018	2017
Cash provided by (used in)		
Operations		
Increase in net assets attributable to holder of redeemable units	**$ 94,847**	$ 2,483,782
Adjustments for:		
Foreign exchange gain on cash	**(5,273)**	(8,829)
Net realized loss on sale of investments	**897,880**	201,566
Net change in unrealized depreciation of investments	**1,521,432**	183,256
Purchase of investments	**(28,173,540)**	(61,964,814)
Proceeds from the sale of investments	**38,523,147**	65,647,454
Interest receivable	**(59,796)**	15,404
Dividends receivable	**43,050**	(26,300)
Other liabilities	**1,363**	11,766
	12,843,110	6,543,285
Financing activities		
Amount received from the issuance of units	**4,859,619**	4,141,408
Amount paid on redemptions of units	**(16,782,498)**	(15,503,961)
Distributions paid to unitholders	**(2,534)**	(6,942)
	(11,925,413)	(11,369,495)
Increase (decrease) in cash during the year	**917,697**	(4,826,210)
Change in unrealized foreign exchange on cash	**5,273**	8,829
Cash, beginning of year	**410,719**	5,228,100
Cash, end of year	**$ 1,333,689**	$ 410,719

Supplemental Disclosure

	2018	2017
Interest received	**$ 2,412,737**	$ 2,641,364
Interest paid	**$ (912)**	$ -
Dividends received, net of withholding taxes	**$ 220,961**	$ 372,629

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

	Number of Shares / Par Value	Average Cost* $	Fair Value $
CANADIAN BONDS - 84.33%			
Corporate Bonds - 81.95%			
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	2,000,000	2,000,000	2,027,500
Alcanna Inc., Convertible, Callable, 4.70%, 2022/01/31	1,000,000	1,000,000	872,500
Alimentation Couche-Tard Inc., Callable, 3.06%, 2024/07/26	500,000	500,000	483,654
Allied Properties REIT, Series 'C', Callable, 3.64%, 2025/04/21	2,000,000	2,000,000	1,927,916
Artis REIT, Series 'A', 3.75%, 2019/03/27	1,000,000	1,006,210	1,002,578
Brookfield Asset Management Inc., Callable, 3.95%, 2019/04/09	1,000,000	1,022,470	1,004,064
Brookfield Infrastructure Finance ULC, Callable, 3.45%, 2022/03/11	2,000,000	2,000,000	2,000,543
Brookfield Infrastructure Finance ULC, Callable, 3.32%, 2024/02/22	1,000,000	1,000,000	977,755
Brookfield Infrastructure Finance ULC, Callable, 4.19%, 2028/09/11	750,000	750,000	742,742
Brookfield Renewable Partners ULC, Series '10', Callable, 3.63%, 2027/01/15	1,500,000	1,499,250	1,439,490
Cameco Corp., Series 'D', Callable, 5.67%, 2019/09/02	1,500,000	1,563,375	1,527,223
Canadian Imperial Bank of Commerce, Variable Rate, Callable, 3.00%, 2024/10/28	1,000,000	1,003,170	1,001,681
Canadian Natural Resources Ltd., Callable, 3.42%, 2026/12/01	500,000	500,000	480,453
Canadian Natural Resources Ltd., 2.05%, 2020/06/01	800,000	799,816	789,065
Cominar REIT, Series '7', 3.62%, 2019/06/21	500,000	502,750	501,301
Crew Energy Inc., Callable, 6.50%, 2024/03/14	3,000,000	3,000,000	2,532,499
Dollarama Inc., Series '3', Floating Rate, Restricted, 2.48%, 2021/02/01	750,000	750,440	739,628
Dollarama Inc., 2.34%, 2021/07/22	500,000	500,000	489,191
Fairfax Financial Holdings Ltd., Callable, 6.40%, 2021/05/25	2,000,000	2,232,920	2,151,492
Fairfax Financial Holdings Ltd., 4.50%, 2023/03/22	500,000	497,155	517,369
Fiera Capital Corp., Convertible, Callable, 5.00%, 2023/06/30	800,000	800,000	808,000
Ford Credit Canada Co., Floating Rate, Restricted, 2.93%, 2020/12/01	500,000	500,000	490,280
Ford Credit Canada Co., 2.45%, 2020/05/07	375,000	369,150	369,213
Keyera Corp., Callable, 3.93%, 2028/06/21	1,000,000	1,001,943	984,897
Kruger Products L.P., Callable, 6.00%, 2025/04/24	750,000	754,469	720,950
Lightstream Resources Ltd., Callable, 8.63%, 2020/02/01	2,000,000	2,230,335	-
Manulife Bank of Canada, Floating Rate, Callable, 2.53%, 2020/01/27	500,000	500,000	498,635
Mattamy Group Corp., Callable, 6.50%, 2025/10/01	500,000	500,000	472,708
Morguard Corp., Series 'B', 4.01%, 2020/11/18	3,000,000	3,033,211	3,015,803
Nissan Canada Financial Services Inc., 1.58%, 2019/10/07	1,000,000	988,650	991,763
Nuvista Energy Ltd., Callable, 6.50%, 2023/03/02	750,000	750,000	714,844
Osisko Gold Royalties Ltd., Convertible, Callable, 4.00%, 2022/12/31	1,000,000	1,000,000	989,900
Parkland Fuel Corp., Callable, 5.75%, 2024/09/16	1,000,000	1,011,000	980,833
Parkland Fuel Corp., Callable, 5.63%, 2025/05/09	600,000	600,000	572,000
Pembina Pipeline Corp., Callable, 2.99%, 2024/01/22	1,000,000	1,002,990	972,590
Precision Drilling Corp., Callable, 7.13%, 2026/01/15	1,000,000	1,288,898	1,172,935
RioCan REIT, Series 'V' , 3.75%, 2022/05/30	1,000,000	1,063,160	1,011,463
Rogers Communications Inc., Callable, 3.00%, 2023/03/15	2,000,000	2,618,605	2,675,766
Royal Bank of Canada, 1.40%, 2019/04/26	1,000,000	999,680	997,878
Royal Bank of Canada, 1.58%, 2021/09/13	2,000,000	2,000,000	1,939,863
SNC-Lavalin Group Inc., Series '2', Floating Rate,Restricted, 2.60%, 2019/03/04	1,000,000	999,840	999,530
SNC-Lavalin Group Inc., Series '5', Floating Rate, 2.61%, 2019/06/06	500,000	500,000	500,040
Suncor Energy Inc., Series '5', Callable, 3.00%, 2026/09/14	500,000	498,755	484,097
Suncor Energy Inc., Series '5', Callable, 4.34%, 2046/09/13	800,000	799,200	803,979
Superior Plus L.P., Callable, 5.25%, 2024/02/27	500,000	505,811	471,198
Toronto-Dominion Bank (The), Variable Rate, Callable, 3.59%, 2028/09/14	500,000	500,000	498,035
Toronto-Dominion Bank (The), 2.45%, 2019/04/02	600,000	600,600	600,494
Toronto-Dominion Bank (The), 2.05%, 2021/03/08	500,000	491,080	493,637
Toronto-Dominion Bank (The), 1.68%, 2021/06/08	750,000	733,575	734,726
Toronto-Dominion Bank (The), 3.01%, 2023/05/30	1,000,000	1,000,000	1,005,935
TransCanada PipeLines Ltd., Callable, 3.39%, 2028/03/15	500,000	499,165	485,992
Vesta Energy Corp., Callable, 8.13%, 2023/07/24	500,000	500,000	471,563
		55,767,673	52,128,191
Provincial and Municipal Bonds - 2.38%			
Municipal Finance Authority of British Columbia, 2.95%, 2024/10/14	500,000	534,080	508,091
Province of Quebec, 2.75%, 2025/09/01	1,000,000	1,007,510	1,008,899
		1,541,590	1,516,990
TOTAL CANADIAN BONDS		57,309,263	53,645,181

Davis-Rea Fixed 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 - 12.74%			
Apple Inc., Callable, 2.51%, 2024/08/19	2,000,000	2,001,200	1,944,933
Aroundtown SA, Callable, 4.63%, 2025/09/18	500,000	497,930	497,760
Bank of America Corp., Floating Rate, 3.27%, 2019/04/01	300,000	402,148	410,375
McDonald's Corp., Callable, 3.13%, 2025/03/04	1,000,000	997,780	984,518
United States Treasury Bond, Inflation Indexed, 0.75%, 2045/02/15	2,500,000	3,246,463	3,280,415
Walt Disney Co. (The), 2.76%, 2024/10/07	1,000,000	1,000,000	984,286
TOTAL FOREIGN BONDS		8,145,521	8,102,287
TOTAL BONDS - 97.07%		65,454,784	61,747,468
TOTAL COST AND FAIR VALUE OF INVESTMENTS - 97.07%		**65,454,784**	**61,747,468**
OTHER ASSETS AND LIABILITIES - 2.93%			**1,863,426**
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS - 100.00%			**63,610,894**

*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.

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, in the case of Class F units of the Fund, the investor is participating in a fee based program with their dealer, and in the case of Class O units of the Fund, the investor has entered into a Class O investment management agreement with the Manager.

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

2. BASIS OF PREPARATION

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.

New Accounting Standards Adopted

The Fund has adopted all of 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").

2. BASIS OF PREPARATION (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 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 and dividend income are recorded separately in the Statement of Comprehensive Income within 'interest for distribution purposes' and 'dividend income', 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 short-term 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/deprecation 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.

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 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.

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.

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

The value at which units are issued or redeemed is the net asset value per unit. Net asset value per unit for each class of the Fund is calculated on each business 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.

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 class is calculated at the close of business on each business day (each a "valuation day") by dividing the net asset value of each class by the outstanding units of that class. The net asset value of each class is computed by calculating the fair value of the assets less liabilities of the class.

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 judgement and estimate 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. 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.

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, 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 December 31, 2018 and 2017.

(Expressed in Canadian Dollars)

5. REDEEMABLE UNITS (Cont'd)

The following table summarizes the changes in the number of units for the year ended December 31, 2018:

	Class A Number of Units	Class N Number of Units	Class O Number of Units
Balance, beginning of year	**1**	**685,401**	**7,011,631**
Units issued	**-**	**23,689**	**478,724**
Units redeemed	**-**	**(113,485)**	**(1,624,689)**
Reinvestments	**-**	**23,335**	**241,276**
Balance, end of year	**1**	**618,940**	**6,106,942**

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

	Class A Number of Units	Class N Number of Units	Class O Number 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

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 distributions:

	2018	2017
From net investment income	**$ 2,540,139**	$ 2,889,325

7. INCOME TAXES

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and accordingly, is subject to tax on its income for the year, including net realized capital gains which is not paid or payable to its unitholders as at the end of the year. It is the intention of the Fund Manager that all annual investment income and sufficient net realized taxable capital gains will be distributed to unitholders.

As of the taxation year ended December 31, 2018, the Fund has an accumulated net realized capital losses of $1,008,022 (2017 - $706,385) available for utilization against net realized capital gains in future years. Capital losses have no expiry. The Fund does not have any accumulated non-capital losses in 2018 and 2017.

8. MANAGEMENT FEES AND OTHER EXPENSES AND RELATED PARTY TRANSACTION

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

The management fee for Class A, Class B, and Class F is computed at 1.75%, 2.00% and 1.50%, respectively, per annum of the net asset value of the Fund plus applicable taxes. The management fee is 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 December 31, 2018, 18.94% of total net assets are held by one investor (2017 - 17.74%).

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 $7,312 (2017 - $1,270).

(Expressed in Canadian Dollars)

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.

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. The Fund's maximum exposure to credit risk in any one investment relates to the Brookfield Infrastructure Finance ULC in the amount of $3,721,040 which represents 5.85% of the net assets of the Fund (2017 - Fairfax Financial Holdings in the amount of $4,296,766 represents 5.70% of the net assets of the Fund).

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

	% of Net Assets	
Debt securities by credit rating*	**2018**	2017
AAA	**8.68**	7.02
AA	**10.99**	7.90
A	**8.92**	10.96
BBB	**46.00**	41.97
Below BBB	**16.72**	16.53
Unrated	**5.75**	4.03
	97.06	88.41

(Expressed in Canadian Dollars)

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

Credit Risk (Cont'd)

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

Liquidity Risk

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

Interest Rate Risk

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

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

	2018	2017
Less than 1 year	**$ 8,535,246**	$ 4,154,500
1 - 3 years	**11,711,533**	7,986,732
3 - 5 years	**14,085,382**	14,140,716
>5 years	**27,415,307**	40,415,428
	$ 61,747,468	$ 66,697,376

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 $3,005,323 (2017 - $3,827,054). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

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

Market Risk

Other Price Risk

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

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

As at December 31, 2018, a 5% increase or decrease in stock prices would have increased or decreased the Fund's Net Assets by $Nil (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.

	Percentage of Net Assets (%)	
Portfolio by Asset Type	**2018**	2017
Corporate Bonds	**82.0**	69.5
Provincial and Municipal Bonds	**2.4**	9.2
Foreign Bonds	**12.7**	9.7
Canadian Equities		
Energy	**-**	5.5
Real Estate	**-**	3.5
Other assets and liabilities, net	**2.9**	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 dollars 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.

(Expressed in Canadian Dollars)

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

Currency Risk (Cont'd)

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	**$ 56,682**	**$ 82,809**	**$ 7,539,491**	**$ 7,678,982**

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 December 31, 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 $383,949 (2017 - $360,825). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

12. FAIR VALUE DISCLOSURES

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

The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Canadian Bonds	**$ -**	**$ 53,645,181**	**$ -**	**$ 53,645,181**
Foreign Bonds	**-**	**8,102,287**	**-**	**8,102,287**
	$ -	**$ 61,747,468**	**$ -**	**$ 61,747,468**

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

12. FAIR VALUE DISCLOSURES (Cont'd)

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

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 year.

14. STATEMENT OF PORTFOLIO TRANSACTIONS

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