PORTLAND
INVESTMENT COUNSEL™

Portland Private Income Fund

2017 Annual Report

December 31, 2017

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COMMENTARY

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

Overview

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

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

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

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

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

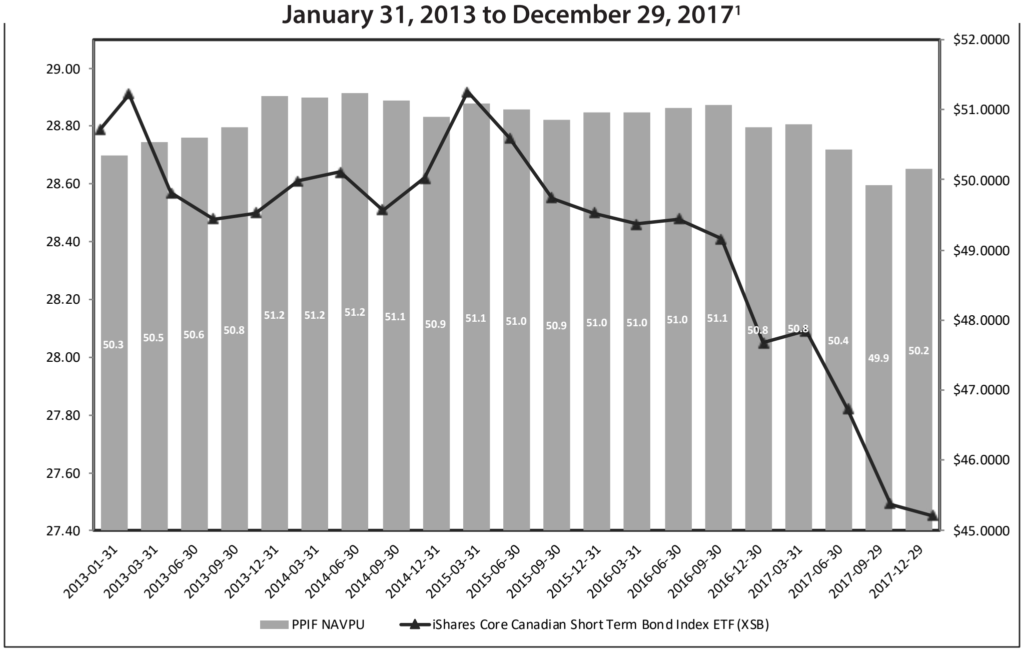
Current Specialty Investment Managers are the European Investment Fund (EIF) and its sister institution the European Investment Bank (EIB), which provide institutional support for the Global Energy Efficiency and Renewable Energy Fund (GEEREF) investment team, EnTrustPermal Ltd. (EnTrustPermal), and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

The following discussion covers the period from January 1 to December 31, 2017. Information related to investments is presented on a combined basis whether the investments are held by the Fund or the Partnership.

Financial Highlights

The Fund's one year return as of December 31, 2017 was 6.8% for Series A and 8.0% for Series F units. The Fund's net asset value (NAV) per unit as of December 31, 2017 was $49.16 for Series A units and $50.15 for Series F units. The Fund has delivered annualized and cumulative returns since inception on February 28, 2013 of 7.8% and 43.8% for Series A units and since inception on January 7, 2013 of 9.1% and 54.3% for Series F units, respectively, while exhibiting little variance in its monthly NAV per unit compared to publicly listed short term debt instruments, such as the iShares Core Canadian Short Term Bond Index ETF (XSB), as depicted in Chart 1. For the year ended December 31, 2017, the XSB achieved a -0.1% total return.

Chart 1. Historical net asset value per unit for the Fund's Series F (right hand) versus iShares Core Canadian Short Term Bond Index ETF (XSB) (left hand) from January 31, 2013 to December 29, 2017[1]



While rising interest rates do adversely impact current fair market value of loans in the Fund, we believe the credit impact is modest. While the Fund continues to achieve its longer-term targeted rates of return, 2017 was subjected to some volatility as the Canadian market was initially surprised by the Bank of Canada's decision to raise interest rates. With prospects for interest rates to rise, we believe the Fund will continue to outperform publicly traded fixed income instruments. We expect the Bank of Canada to continue to unwind stimulus and raise interest rates throughout 2018 as Bank of Canada Governor, Stephen Poloz, surprisingly increased the policy interest rate from 0.50% on July 12, 2017 to 0.75%; again on September 6, 2017 when the policy interest rate moved from 0.75% to 1.00% and once more as expected on January 17, 2018 when the policy interest rate moved from 1.00% to 1.25%. We believe the Bank of Canada is aware of the potential negative impact that a collapse in the North American Free Trade Agreement (NAFTA) could have on the Canadian economy, but the extent of the negative impact on the economy may be hard to quantify. This leaves us to surmise that Stephen Poloz's actions will be determined based on the facts of the situation at that time. The Bank of Canada currently believes that the Canadian economy is at full capacity and that there should be a pickup in business investment as a result. Given the large shock to the economy that the Great Recession caused by delaying business investment, as business investment begins to increase a decade later, we would expect business investment to be more pronounced. This excess upward push on future economic activity leads us to believe that there will be further rate increases in 2018 in order to continue to address a target inflation rate of 2%.

The Fund declared quarterly distributions commencing with the quarter ending March 2013 and moved to monthly fixed distributions since January 2014. Effective December 31, 2016, in addition to its regular fixed distribution, the Series F units received a special distribution of $0.1486 per unit in January 2017 to ensure the Fund did not pay income tax. During 2017 to date, the Fund has maintained its regular distributions of $0.3333 per unit per month and $0.3750 per unit per month, for Series A units and Series F units, respectively. In December 2017, it was recognized that the Fund would not pay income tax and so another special distribution was unnecessary.

Recent Developments and Outlook

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

Canadian Mortgage Market

The Canadian Housing Market experienced several noteworthy events in 2017, which are of interest to the Manager and the Fund:

(i) On April 20, 2017, the Ontario provincial government announced the Ontario Fair Housing Plan aimed at cooling the surging Toronto housing market, including a 15% non-resident speculation tax.

(ii) In its April Budget, the Ontario provincial government moved to tighten oversight of syndicated mortgage investments: it announced that it will transfer responsibility for the syndicated mortgage sector away from the Financial Services Commission of Ontario (FSCO) and to the Ontario Securities Commission (OSC). The shift was recommended last year recognizing the significant increase in the syndicated mortgage sector over recent years and the OSC's experience of overseeing securities products. Syndicated mortgages are mortgage investment products marketed by companies that finance real estate development using money provided by a pool of investors. Several mortgage firms have faced lawsuits in recent years from investors upset that development projects have not proceeded after companies faced financial difficulties. The shift of oversight to the OSC is consistent with the way syndicated mortgage products are regulated in other provinces. The shift follows recent publicity of some failing syndicated mortgage investments. In April 2017, CNBC News reported that 120 Chinese investors in the Greater Toronto Area lost nearly $9 million; that Tier 1 Mortgage Corporation (Tier 1) was issued a cease and desist compliance order by FSCO in October 2016; and that since then a trustee has been appointed to protect the interests of syndicated mortgage investors in sixteen Tier 1 real estate development projects. In the spring, the Financial Post also mentioned that Grant Thornton LLP was appointed by the courts to administer eleven corporations performing mortgage administration functions involving Tier 1 real estate projects and that First Commonwealth Mortgage Corp. also had its license suspended by FSCO last October. Also, in the spring, a Globe & Mail article focused on Mortgage Investment Entities (MIE's) and the premise that more money than ever is chasing mortgage deals which, in turn, has caused interest rate compression for MIEs. As a consequence, MIE's have been faced with the decision to either let the yield fall or take on extra risk to keep yields up.

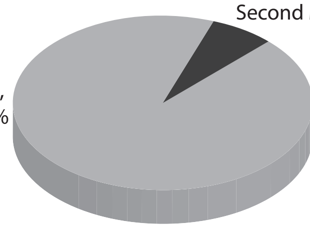
(iii) In April 2017, it was highlighted that Home Capital Group Inc. (HCG) faced self-inflicted challenges following disclosures of misconduct allegations by the OSC and funding issues. HCG experienced a 30% decline in its high-interest savings account balances across March and April 2017 and consequently agreed to a $2 billion credit facility with the Healthcare of Ontario Pension Plan (HOOPP) as a replacement, at an interest rate of 10% per annum and reportedly an all-in extremely high 22.5% implied interest rate. For perspective, as of February 2017, HCG had approximately $16 billion in residential mortgage loans outstanding; by comparison the six big banks plus Canadian Western Bank and Laurentian Bank of Canada ended the first quarter of 2017 with total domestic residential real estate exposure of about $1,175 billion. In other words, HCG had an approximately 1% market share and there was no indication, in our view, of credit deterioration in the mortgage portfolio of HCG (its delinquency rate was understood to be less than 0.21%). In June 2017, HCG announced that it had entered into an agreement with KingSett Capital Inc. to sell a portfolio of commercial mortgage assets valued at about $1.2 billion for 99.61% of outstanding principal value, less a share of future credit losses. Subsequently in June 2017, Berkshire Hathaway Inc. announced an agreement to acquire up to 38.4% of the common shares of HCG and provide a new $2 billion credit facility at an interest rate of 9.5% per annum falling to 9% once the (highly dilutive) equity investment was finalized. The divestment to KingSett and agreement with Berkshire would pay down the onerous HOOPP lifeline.

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

Taking each event in turn, we wrote in the 2016 Annual Report the heightened evidence of overvaluation in Toronto spreading to more adjacent cities, causing the moderation of the Fund's exposure to mortgages. Earlier we shunned exposure to mortgages in the condo market in downtown Vancouver and Toronto and so now welcome the macro prudential efforts underway to engineer a cool down in prices. We do source commercial mortgages from MarshallZehr, a licensed mortgage broker, which we have worked alongside for several years. We both welcome the tightening oversight of the syndicated mortgage market and expect the differences between how MarshallZehr and other well practiced firms operate, will shine through compared to those brokers now losing their licenses. We are already experiencing how the dislocation of some operators are presenting attractive opportunities. MIE's are not a homogeneous group and should be viewed as a "sector" only in the broadest of terms. The Fund lends short term to developers and not long term to individuals labelled by FICO® as rating below scores of 660 and by banks as sub-prime. The Fund lends to developers known to MarshallZehr based on an understood exit, typically take-out financing as the development progresses or based on verified presales.

In a capital structure, equity holds the greater risk and is the cushion against which debt can be repaid. As of December 31, 2017, the weighted average LTV of the mortgage portion of the Fund's portfolio was 63% (reduced from 74% at December 31, 2016) and its securities consisted primarily of first mortgages (see Table 1 and Chart 2). LTV is the ratio of loans advanced to date, to the appraised value of the project by MarshallZehr and/or independent appraisers and the Manager.

Chart 2. Mortgage portfolio breakdown by type of security as of December 31, 2017



In our view, it would take a decline in property values in the order of greater than 25% to put the Fund's portfolio of mortgages at risk from a tangible collateral perspective and typically all the mortgages to developers are also secured by corporate or personal guarantees. Funding HCG's long term liabilities with short term broker deposits required constant confidence which its management spectacularly undermined. The requirement to shore up liquidity with a 'bazooka'-type credit facility on very expensive terms hemorrhaged the equity value of HCG but hardly impinged upon the credit worthiness of HCG's debt, exemplified by the sales terms of its divestment to KingSett for 99.61 cents on the dollar, less a share of future credit losses undertaken under duress in order to help reduce its expensive debts. Given the large banks are now embarking on introducing mortgage-backed securities to the Canadian market, those banks and pension funds like HOOPP may have an interest in maintaining orderly markets, but the credit line to HCG by HOOPP was both opportunistic and on a risk-adjusted basis, we believe singularly attractive, and while it was large it was the kind of commercial loan opportunity that the Fund, likely via Crown, would entertain. The manner in which Warren Buffet via Berkshire Hathaway Inc. subsequently feasted on the folly of HCG only serves to endorse our view.

Canadian Commercial Loan Market

Aside from our views on the Canadian mortgage market, we have long believed that middle market companies (revenues between $50 million and $500 million) are vital to the Canadian economy, yet they have remarkably few alternatives for growth capital – capital to expand their operations, fund acquisitions, or recapitalize. Canada's financial landscape is dominated by chartered banks and private equity funds, whose financial terms and dilutive financing structures are often ill-suited to meet the demands of mid-market companies. There is, we believe, a clear funding gap between equity providers and bank debt. Continued market uncertainty and banking regulatory changes have exacerbated the funding gap, as banks further limit their willingness to extend adequate credit, so providing the increasing growth opportunity for focused specialty finance providers. Therefore, over the last 30 months, we have gradually diversified the Fund's portfolio to include private commercial debt which we believe offers increasingly improving risk adjusted returns.

In July 2016, the portfolio broadened its exposure to private commercial loans via Crown, a specialty finance company focused primarily on providing capital to successful Canadian companies and to select U.S. companies. Crown originates, structures and provides tailored transitory and permanent financing solutions in the form of loans, royalties and other structures with minimal or no ownership dilution. Crown successfully increased the size of its fourth special situations debt fund, Crown Capital Fund IV, L.P. (Crown Fund IV) to $125 million on July 15, 2016. Whereas Crown's focus is on financing deals of more than 5 years, Crown Fund IV's focus is primarily on deals of 5 years or less. As a result of increasing the size of Crown Fund IV, Crown took its first step towards a targeted 30% ownership by lowering its holding from 50% to 40% of Crown Fund IV enabling the Fund's portfolio to increase its ownership from 10% to 13.12%. Crown successfully increased Crown Fund IV to $175 million in January 2017 and further reduced its holding in Crown Fund IV from 40% to 36.5% in July 2017, enabling the Fund's portfolio to increase its ownership to 15%, being one of a select few other limited partners including the Investment Management Corporation of Ontario (formerly Ontario Pension Board). Crown increased Crown Fund IV in July 2017 to $225 million with the Fund's ownership being maintained at 15%. The Fund's commitment to Crown Fund IV as at December 31, 2017 was 81.1% drawn. The portfolio of commercial loans held by Crown Fund IV are detailed on Crown's website at www.crowncapital.ca. As at December 31, 2017, Crown Fund IV comprised ten loans ranging in size from $7 million to $30 million. A sector breakdown of the commercial loans is shown in Chart 9.

During the 12 months ended December 31, 2017, the additions and deletions to the portfolio of commercial loans held by Crown Fund IV were:

- In February, Crown announced the closing of a $15 million, three-year term loan through Crown Fund IV with Solo Liquor Holdings Ltd., the second largest liquor retailer in Alberta and largest private liquor retailer in the province. Headquartered in Calgary, Solo currently operates 41 liquor stores in high-traffic locations in Alberta, including 19 stores in Calgary, 13 in Edmonton and the remaining 9 in other communities across Alberta. Founded in 1996, the company is 100% owned by senior management. Solo will use Crown Fund IV's loan to expand its store network over the next several years. The term loan includes a bonus feature based on the growth in Solo's enterprise value. The Alberta Treasury Board M&A Advisory Services acted as exclusive financial adviser to Solo.
- In May, Crown announced prepayment of the $20 million, 5-year loan by Distinct Infrastructure Group Inc., a TSXV-listed turnkey solutions firm providing design, engineering, construction and maintenance services to telecommunications firms, utilities and government bodies. The loan was initiated in November 2015. As stated by Chris Johnson, President and CEO of Crown, "Distinct has done an excellent job of growing its business and creating value, by capitalizing on the growing market demand for high-speed fiber installation capabilities. This performance enabled Distinct to secure an expanded facility with their existing senior lender." Distinct has prepaid the loan in full, including principal, interest and fees. In July 2017, Crown announced the disposition of all the common shares of Distinct held by Crown Fund IV and which resulted in net proceeds of approximately $1.4 million. The realized gross internal rate of return (IRR)[2] on the Distinct investment was 19.8%.
- In May, Crown announced the closing of a $30 million, five-year term loan through Crown Fund IV with Marquee Energy Ltd., a Calgary-based TSXV-listed company engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves focused in western Canada. Marquee's primary assets are located in the Michichi area of southern Alberta. The company has current production of approximately 2,600 barrels of oil equivalent production per day of which approximately 50% is natural gas and 50% is oil and natural gas liquids. The company's land base includes approximately 386,000 net acres of total land with 172,000 net acres of undeveloped land. Marquee is focused on growing through exploitation of existing opportunities and continued consolidation within its core area. The loan from Crown Fund IV will be used to repay the existing senior debt facility and to fund Marquee's capital program. The term loan includes warrants to acquire 37.5 million common shares of Marquee, exercisable at $0.11 per share.
- In June, Crown announced the closing of a $25 million, five-year term loan through Crown Fund IV with Ferus Inc., a Calgary-based company which provides a dedicated supply of energized fluids (liquid nitrogen and liquid carbon dioxide) as well as the related logistical and operational services to deliver those products and frac sand to customers in the energy industry. The company is the leading provider of industrial gases to the Canadian energy market where its products are integral to the energized hydraulic fracturing process. Ferus has the strategic advantage of owning and operating the complete supply chain, from gas production through to last-mile delivery. The company has six strategically located production plants and maintains a logistics fleet as well as a network of specialty wellsite storage units to facilitate the efficient delivery of essential fracturing inputs. Crown Fund IV's term loan will be used to repay Ferus' existing senior credit facility and to support Ferus' growth objectives. The term loan includes warrants of Ferus.
- On May 23, 2017, we became aware that Crown had amended the debt agreement on its $15 million loan with Petrowest Corporation and had subsequently provided an additional bridge loan in the amount of $12 million (with $2 million of this loan directly syndicated to a limited partner of Crown Fund IV (not the Fund) to allow them to re-finance its operations. Although the loans were made against tangible assets, on August 15, 2017, it was announced that Petrowest was placed into receivership by its creditors and banking syndicate, with agreement from its Board of Directors. The receiver, Ernst & Young Inc. (Receiver), maintained regular contact with the banking syndicate and Crown. Crown ultimately published a press release as at November 3, 2017 explaining that the Receiver had prepared all of the company's assets for sale or had monetized the assets and in relation to the sale and/or sale process, the Court of Queen's Bench of Alberta approved the following:
  - RBee Aggregate Consulting Ltd. (RBee), a newly established company owned by Crown Fund IV, and management of the operations of RBee Crushing, will acquire Petrowest's Civil division as a going concern. The total consideration offered is $29.0 million, which includes the assumption of approximately $17.3 million of Crown Fund IV's loans to Petrowest, subject to closing adjustments. The balance of the consideration will be funded with third-party bank debt. The collective investment of Crown Fund IV and its syndicate partner in RBee will comprise a combination of a 50% equity interest in RBee with a cost base of $5 million and a $12.3 million interest-bearing, second-lien loan.
  - RBee has made a bid to acquire Petrowest's rental division as a going concern. The total consideration offered was $3.6 million, which includes the assumption of $2.2 million of Crown Fund IV and its syndicate partner's loans to Petrowest. The balance of the consideration will be funded with third-party bank debt. The Manager believes that it is likely that at least one higher offer was received for the Receiver to consider.
  - Timber Pro Logging Ltd. will acquire Petrowest's cutbank transportation division as a going concern for an undisclosed price.
  - Century Services Corp. has made a bid for substantially all Petrowest's equipment from discontinued operations. The cash consideration offered is $18.8 million.

  Proceeds from the above transactions, combined with the collection of general accounts receivable and sale of smaller assets is expected to generate net proceeds in the range of $60 million to $70 million, of which approximately 90% of the low end of the range has been confirmed by completed sales and/or guaranteed bids. Using the low end of the range, net of professional fees, priority payables and payments to the senior bank syndicate, Crown Fund IV expects to recover, through its ownership interest in and loans to RBee and from other cash proceeds on the sale of Petrowest's assets, the full amount of its outstanding loans to Petrowest, including principal, interest and fees.
- In November, Crown announced prepayment of the $60 million, 4-year term loan by Medicure Inc. of which Crown had syndicated $30 million of the loan to Investment Management Corporation of Ontario. Medicure is a pharmaceutical company focused on the development and commercialization of therapeutics for the U.S. cardiovascular market. Medicure used the proceeds to purchase additional shares of Apicore, a developer and manufacturer of specialty Active Pharmaceutical Ingredients and pharmaceuticals. In October, Medicure announced that it sold its interest in Apicore. "The Apicore acquisition was a tremendous value-creating transaction for Medicure and we wish the team continued success as they advance their growth plans," said Chris Johnson, President and CEO of Crown. Medicure has prepaid this loan in full, including principal, interest and fees, however Crown Fund IV continues to own warrants to acquire 450,000 common shares of Medicure, exercisable at $6.50 per share.

- In December, Crown announced the closing of a $7 million, five-and-a-half-year term loan through Crown Fund IV with Active Exhaust Corp. Active Exhaust manufactures complete exhaust systems and components for major global original equipment manufacturers operating in the off-road equipment sector, primarily in the agricultural, construction and turf care markets. Active Exhaust is headquartered in Toronto and has manufacturing operations in Toronto, as well as China and India through majority-owned joint ventures. Active Exhaust has a diverse group of blue-chip original equipment manufacturer customers, including four of the largest equipment manufacturers in the world. Crown's term loan will be used to support a management buyout of the minority shareholders. The term loan bears a fixed interest rate and also includes a bonus feature based on the growth in Active Exhaust's enterprise value.
- Also in December, Crown announced the closing of an $8 million, five-year term loan through Crown Fund IV with Canadian Helicopters Limited, an international provider of helicopter transportation and related support services. Canadian Helicopters is the largest helicopter transportation services company in Canada with a network of 11 strategically located fixed bases to support operations throughout the country. Canadian Helicopters owns and operates 91 light, medium, and heavy lift helicopters. In addition, to charter services, Canadian Helicopters provides flight training and helicopter repair and maintenance services. Its customers include the U.S. Department of Defense (North Warning System), Canadian Department of National Defense, Federal Government of Canada, Nova Scotia Department of Health and Bell Helicopter. The purpose of the loan was for the management to purchase the North American operations of the company. The term loan bears a fixed interest rate of 10% per annum and includes a bonus feature based on the growth in Canadian Helicopters' enterprise value. Canadian Helicopters has also arranged for a $75 million, 3-year senior credit facility led by Canadian Western Bank.

In January 2018, Crown announced the closing of a $33.0 million term loan to Baylin Technologies Inc., a global provider of innovative wireless antenna solutions with over 39 years of experience in designing, manufacturing and supplying antennas for the wireless infrastructure, networking and mobile markets. Headquartered in Toronto, Baylin maintains world-class research and development and engineering capabilities in Arizona and Ottawa. Baylin is one of a few antenna manufacturers with design capabilities in indoor and outdoor cellular antenna systems, small cells, set-top boxes and mobile phones. To date, Baylin has produced more than one billion antennas and designed over 2,000 unique custom antennas. The company has production capacity of 250 million antennas per year across three manufacturing facilities in China, South Korea and Vietnam. Baylin has used the proceeds of the term loan to acquire the radio frequency, terrestrial microwave and antenna equipment divisions of Advantech Wireless Inc. and its affiliates (collectively, Advantech). Advantech is a provider of wireless broadband communications solutions, whose innovative solutions have for more than 25 years, enhanced the capabilities of government and commercial clients in over 150 countries. Advantech is headquartered in Montreal and has offices across North America, South America, and Europe. The agreement provides for a $33.0 million term loan to Baylin, of which Crown Fund IV has advanced $30.0 million. Crown syndicated $3.0 million of the loan to two of Crown Fund IV's institutional limited partners including the Fund. The term loan bears a fixed interest rate of 9.0% per annum and matures in 60 months. In addition, a total of 682,500 warrants of Baylin were issued to Crown Fund IV and its syndicate partners.

Global Renewable Energy Market

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

As of September 30, 2017, GEEREF had committed to invest approximately €152.3 million in twelve Regional Funds, liquidated and so realized €15.3 million from one Regional Fund and positively received submissions from one successor Regional Fund. The portfolio of Regional Funds held by GEEREF are detailed on GEEREF's website at www.geeref.com. The portfolios of each of the twelve Regional Funds comprise a total of 103 investments. Three of these Regional Funds have finished their investment periods and begun the process of divesting.

Global Maritime Market

Christopher Wain-Lowe has previous direct experience of European banking, having been employed by Barclays PLC for nearly twenty years. During that time, Christopher spent over 3 years based in Athens, Greece, ultimately as CEO of Barclays business in Greece responsible for its large shipping portfolio. These earlier experiences assisted the decision in March to select EnTrustPermal as the portfolio's third Specialty Investment Manager to complement the Partnership's existing portfolio via its maritime lending fund, Blue Ocean Fund (Blue Ocean). EnTrustPermal is a leading global alternative asset manager and as one of the world's largest hedge fund investors provides portfolio and risk management services to Blue Ocean and its parallel funds, which have total commitments of U.S. $205 million and have committed U.S. $164 million to investments. The Partnership was an initial investor in Blue Ocean having committed U.S. $5 million, with 76.3% drawn as at December 31, 2017 and the rest expected to be called over the next few months.

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

Since the Great Recession, European banks, compared to U.S. banks, have been slower to build their capital strength but have historically served as the shipping industry's largest lenders. Regulatory changes now mandate banks to hold more capital and more liquidity, and given the concentration and tenure of shipping loans, European banks have been reducing their lending activity to the sector, creating a shortfall in ship financing capacity. The Manager anticipates current financing opportunities to be diverse but includes the uneconomic selling by European banks of shipping assets at discounts based on their inability to afford funding such loans, as well as regulatory pressure to reduce exposure. The Manager and EnTrustPermal believe that current financing opportunities in the shipping sector come with significant contractual downside protection given low to moderate loan-to-ship values, historically low asset values and first lien, senior secured structures. Once fully invested, Blue Ocean is expected to be a diversified portfolio of 25 to 40 primarily floating rate first lien loans or bonds over a 12 to 36 month build up period with Chart 3 illustrating a current snapshot comprising 5 loans financing 23 vessels. Investments will focus on situations currently being underserved by traditional maritime lenders, including financings of small to medium sized shipping companies in various degrees of stress. Blue Ocean has initiated making quarterly cash distributions of interest income and principal amortization. The Partnership, as an investor in Blue Ocean, will pay to EnTrustPermal a management fee of 1.5% per annum of the NAV of contributed capital in addition to any organizational costs and ongoing fees and expenses related to the operation of Blue Ocean.

Chart 3. Portfolio Asset Allocation for the Blue Ocean Fund

Asset Allocation			
	Container	Dry Bulk	Tanker
Allocation	52.9%	26.5%	20.7%
Committed Value ($U.S.)	$86,917,180	$43,500,000	$34,025,000
Ship Type			
Cargo	Various industrial and consumer goods in large containers	Dry goods, such as grain, ore, cement and other cargo	Liquid goods, such as crude oil, finished petroleum products, liquefied natural gas, chemicals and other liquids

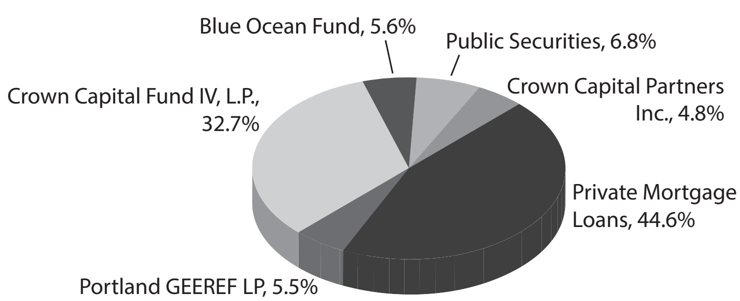
Portfolio Profile

The portfolio is comprised as follows (see Chart 4):

	December 31, 2017	December 31, 2016
Private mortgage loans administered by MarshallZehr:	44.6%	50.3%
Crown originated private debt:		
Crown Capital Fund IV, L.P.	32.7%	31.3%
Crown Capital Partners Inc.	4.8%	5.4%
Blue Ocean Fund commercial debt	5.6%	nil
Private Equity:		
Portland Global Energy Efficiency and Renewable Energy Fund LP	5.5%	5.5%
Other Public Securities:	6.8%	7.5%

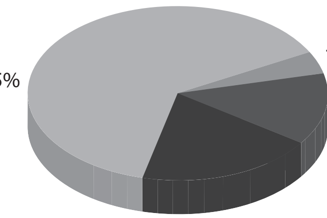
Note: December 31, 2016 values have been restated from Financial Report dated December 31, 2016 to be consistent with current year groupings

Chart 4. Investment Allocation as of December 31, 2017[3]



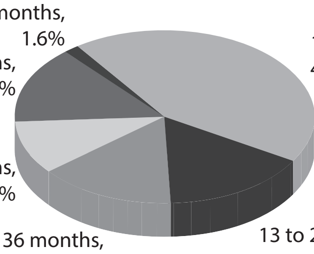
Notwithstanding the developing relationship with Crown and Crown Fund IV, and now EnTrustPermal and Blue Ocean, a significant component of the portfolio's current investments consist of mortgages in the Greater Toronto Area, South-Western Ontario and Central Ontario including a variety of infill and intensification projects with what the Manager believes to be well-established developers located in areas of increased demand. The projects span term, pre-development, development and construction stages (see Table 1 and Chart 5). The commercial mortgages are diversified across project types, geography, project stage and term, as detailed in Table 1. As of December 31, 2017, 100% of the mortgage investments were in Ontario.

Chart 5. Mortgage portfolio breakdown by mortgage type as of December 31, 2017



Given the portfolio's exposure to mostly short term commercial mortgages and loans (see Chart 6), we believe it retains the flexibility and capability to outperform publicly listed fixed income instruments as higher interest rates return.

Chart 6. Debt portfolio breakdown by term as of December 31, 2017[4]



The weighted average net interest rate (net of specific provisions) of the mortgage portfolio at December 31, 2017 is 10.1% (see Table 1).

Table 1. Mortgage portfolio as of December 31, 2017

Build Form	Location	Type	Security	Term	Net Interest Rate	Loan to Value
Senior Condominium	Richmond Hill	Pre-Construction/ Development	1st Mortgage	12 months	11.40%	87%
Residential Condominium	Markham	Construction	2nd Mortgage	25 months	11.90%	86%
Mixed Use Condominium	Kitchener	Construction	1st Mortgage	36 months	12.75%	80%
Retirement Residences	Peterborough	Construction	1st Mortgage	6 months	11.90%	71%
Residential Subdivision	Guelph	Pre-Construction/ Development	1st Mortgage	18 months	11.90%	92%
Senior/Healthcare Residence	London	Term	1st Mortgage	12 months	9.50%	80%
Student Housing	Barrie	Construction	1st Mortgage	13 months	8.50%	88%
Residential Condominium	Richmond Hill	Construction	1st Mortgage	10 months	10.60%	42%
Residential Subdivision	Barrie	Pre-Construction/ Development	1st Mortgage	13 months	8.00%	29%
Residential Subdivision	Oakville	Construction	1st Mortgage	18 months	11.00%	78%
Residential Subdivision	Mississauga	Construction	1st Mortgage	18 months	11.00%	70%
Residential Condominium	Waterloo	Construction	1st Mortgage	18 months	11.90%	91%
Residential Condominium	Richmond Hill	Construction	1st Mortgage	18 months	10.60%	75%
Residential Subdivision	Peterborough	Construction	1st Mortgage	19 months	11.90%	73%
Commercial Development	Hamilton	Construction	1st Mortgage	13 months	10.60%	72%
Commercial Development	Markham	Construction	1st Mortgage	19 months	11.05%	49%
Retirement Residences	Burlington	Pre-Development	1st Mortgage	12 months	8.50%	27%
Retirement Residences	Kitchener	Pre-Development	1st Mortgage	12 months	8.50%	35%

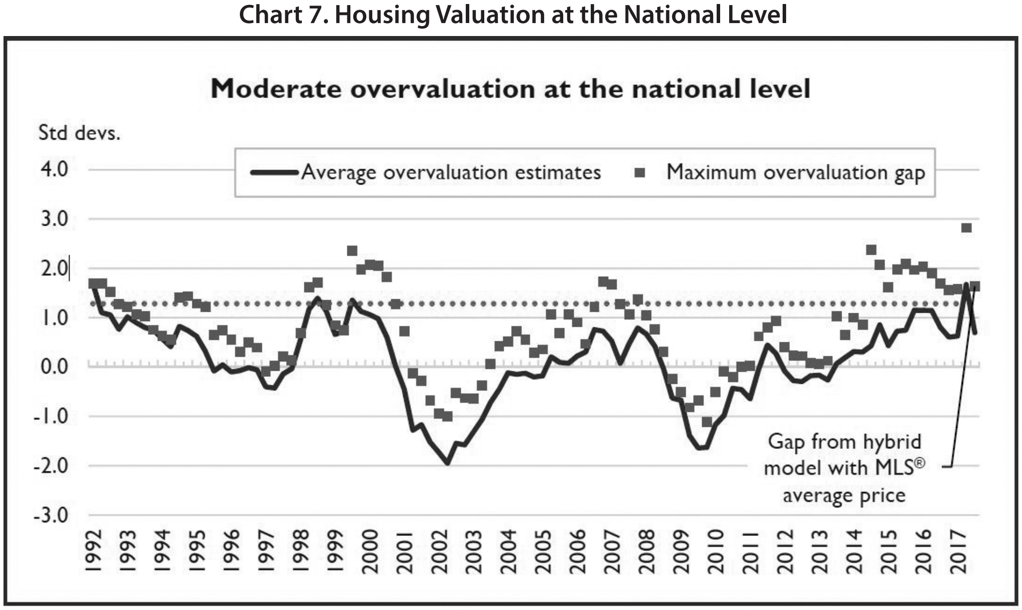
Build Form	Location	Type	Security	Term	Net Interest Rate	Loan to Value
Student Housing	Kingston	Pre-Development	1st Mortgage	9 months	8.50%	16%
Student Housing	Kingston	Pre-Development	1st Mortgage	9 months	8.50%	19%
Residential Subdivision	Blue Mountains	Pre-Construction/ Development	1st Mortgage	25 months	11.90%	50%
Residential Subdivision	Blue Mountains	Pre-Construction/ Development	1st Mortgage	25 months	8.00%	60%
Residential Subdivision	Mount Hope	Pre-Development	1st Mortgage	25 months	9.00%	55%
Residential Subdivision	Millbrook	Pre-Development	1st Mortgage	37 months	8.00%	51%
Residential	King City	Pre-Development	1st Mortgage	19 months	8.50%	71%
Residential	Muskoka Lakes	Term	1st Mortgage	12 months	10.2%	5%
Residential Subdivision	Brampton	Pre-Development	1st Mortgage	19 months	11.50%	68%
Residential	Whitchurch-Stouffville	Pre-Construction/ Development	1st Mortgage	13 months	8.00%	66%
Residential Subdivision	Bowmanville	Pre-Construction/ Development	1st Mortgage	13 months	11.90%	65%
Residential Condominium	Richmond Hill	Construction	1st Mortgage	13 months	10.60%	78%
				Weighted Average	10.1%	63%

Canadian Mortgage Market

Canada Mortgage and Housing Corporation (CMHC) issue periodically a Housing Market Assessment. CMHC's fourth quarter 2017 report notes:

> "Canada's housing market remains at a high degree of vulnerability due to a combination of moderate price acceleration and overvaluation. [Chart 7] shows the evolution of the average overvaluation gap, as well as the maximum overvaluation gap from selected models. The gap indicates how far the observed price is from the housing price that is supported by fundamental factors such as population and income. There remains moderate overvaluation, as the maximum gap from all the models that we estimate was above the threshold since the end of 2014. Overvaluation subsided from the first to the second quarter of 2017, since population and income growth accelerated compared to the lower growth registered in the first quarter. In the second quarter of 2017, real income growth was above inflation and the unemployment rate is currently at the lowest level since 2008. While growth in the Multiple Listings Service (MLS) average price has slowed to just under a year-over-year rate of 5%, the other price indices we monitor are growing at their fastest pace in almost 10 years."

Chart 7. Housing Valuation at the National Level



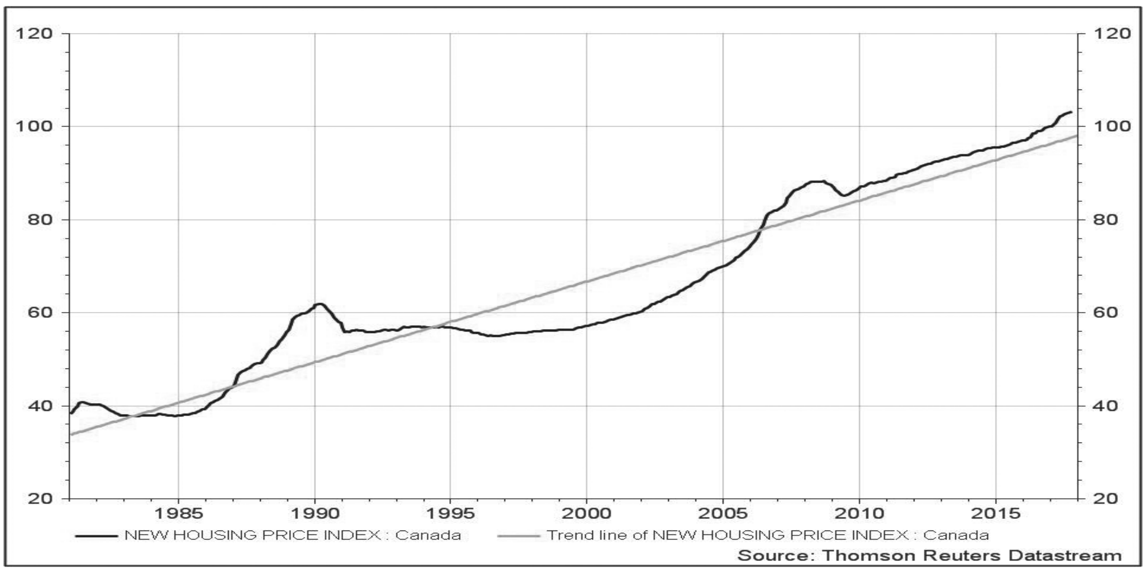
Sources: Canadian Real Estate Association (CREA), Statistics Canada and calculations by CMHC.
Note: A standard deviation larger tham 1.29 is considered as significant. 10% of observation are above the threshold.

In the Fourth Quarter 2017 Housing Market Assessment report, the CMHC noted:

> "Sales in the Greater Toronto Area have declined strongly from their record levels registered earlier this year while the supply of new listings reached an all-time high, bringing down the sales-to-new listings ratio in Q2 2017 to 0.45. This follows six consecutive quarters of the sales-to-new listings ratio being above the threshold of 0.70. However, given that this change has only persisted for just one quarter so far, we continue to detect moderate evidence of overheating."

Chart 8 below, highlights Canadian real home prices indexed to June 2007. This chart seeks to show that real home prices in Canada are on the high-side of their long-term trend, thanks to strong post-recession gains that have run above the rate of inflation. The Bank of Canada and CMHC macro prudential efforts to decelerate the trend, have until recently appeared to be working to moderate price growth to a level more in line with underlying inflation. However, the recent spike, in our view, helped spur the Government in October 2016 to propose risk sharing measures to slow the mortgage and housing markets. Placing an onus on banks to hold some amount of capital on insured mortgages in lieu of a loss sharing agreement, prompted the banks to offset such costs by raising mortgage rates. Such measures on top of the increased tax implications for foreign buyers in Vancouver and higher qualifying rates for insurance might serve to help dampen housing demand but have now been further strengthened by the catch-up actions announced by the Ontario provincial government in April, referred to as the Ontario Fair Housing Plan, a sixteen-point plan aimed at cooling the surging Toronto housing market, which includes a 15% non-resident speculation tax.

Chart 8. Canada New Housing Price Index – January 15, 1981 to December 31, 2017



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

In June, The Globe & Mail reported that property developers in Ontario were calling for changes to rent-control measures announced by the province in April, citing them as too harsh and already causing builders to cancel apartment construction projects. The province announced the new measures would expand rent controls to all rental properties in Ontario and cap the rate of annual rent increases at the rate of inflation or a maximum of 2.5% annually. The newspaper cited an industry request that the cap should be raised to 10% from 2.5%. It seems unlikely the Ontario provincial government will accede to such requests.

In January 2018, the CMHC released Canadian Housing Start data that showed from 2016 to 2017 the number of new housing starts in Canada increased from 180,647 to 202,284, representing an increase of 12%. Over the same period, the number of single-detached housing starts in Canada increased from 60,552 to 63,480, representing an increase of 5% and the number of all other dwellings housing starts in Canada increased from 120,095 to 138,804, representing an increase of 16%. Additionally, from 2016 to 2017 the number of new housing starts in Ontario increased from 71,863 to 75,112, representing an increase of 5%. Over the same period, the number of single-detached housing starts in Ontario decreased from 27,191 to 26,328, representing a decrease of 3% and the number of all other dwellings housing starts in Ontario increased from 44,672 to 48,784, representing an increase of 9%.

It is encouraging for us to note that the Ontario rental market continues to support a need for a greater supply of housing accommodation in the province. A 2017 Ontario Rental Market Report released by the CMHC notes that:

> "[in the] Fall Rental Market Survey, Ontario vacancy rates moved lower to 1.6% in the fall of 2017, from 2.1% in the fall of 2016. New units added to the rental apartment universe fell short of increases in rental demand – resulting in lower apartment vacancy rates. Ontario vacancy rates hit their lowest levels since October of 2000. Several factors added to rental demand and exerted downward pressure on vacancy rates. A synchronized expansion in the global economy has lifted growth prospects this year especially in Europe and Canada. The Ontario economy has benefitted from this and is set to grow at its fastest pace since 2010. Similarly, Ontario employment levels in 2017 are on track to grow at one of the strongest rates in recent years. A second factor supporting rental demand was a rising cost gap between ownership and rental

accommodation. Despite some cooling in home prices in the second quarter, Ontario monthly mortgage carrying costs are up strongly and were outpacing the growth in incomes and average apartment rents in 2017. A third factor exerting downward pressure on vacancy rates was continued population growth. Roughly three quarters of growth in Ontario's population is driven by migration. While international migration dipped from the near term high reached in 2016, immigration levels in 2017 will be the second highest since 2001. In addition to this, Ontario rents grew by 3.8% in 2017, up from 3% in 2016."

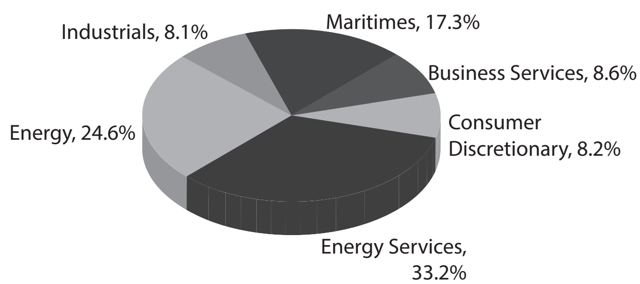
Absent more material evidence of a cooling market, we recognize the heightened evidence of overvaluation in Toronto is spreading to more adjacent cities, further prompting our actions to moderate the Fund's exposure to mortgages, reduce the weighted average LTV ratio of the mortgage portfolio and increase the collective allowance, which is further discussed under the section 'Impairment of financial assets'.

We remain mindful of the well-publicized over-supply of residential real estate projects in certain areas of the market, particularly regarding condo units at various levels of completion across Toronto, and we are applying selectivity and a rigorous due diligence process that we believe ensures a high quality in each project, strength in management, tangible security, an achievable business plan and clear realization of the anticipated returns. The Fund has no exposure to the condo market in Toronto but has exposure in Ontario's retirement, student and retail markets and has experience investing in affordable housing which we believe is increasingly needed as urbanization increases a city's 'support network' of service industry workers. MarshallZehr continues to focus on dynamic high growth geographies/niches which have been underserved by traditional lenders, where it draws on its extensive business experience in commercial financings and real estate. During this period, we have been appreciative of the approach taken and quality of mortgage opportunities presented to us by MarshallZehr.

Commercial Loans: Canada and Global Maritime

As depicted in Chart 9, the portfolio of ten commercial loans made through Crown Fund IV plus the exposure to Blue Ocean is diversifying satisfactorily in our view with: Petrowest / RBee Aggregate Consulting Ltd. (RBee) (Petrowest: infrastructure/energy services and post-receivership, RBee: construction/ engineering); Bill Gosling Outsourcing Holding Corp. (business process outsourcing services); Touchstone Exploration Inc. (oil & gas producer); Source Energy Sources (frac sand supplier in hydraulic fracturing process); Solo (liquor retailer); Marquee (oil and gas producer); Ferus (energy services); Canadian Helicopters (charter & private air services); and Active Exhaust (industrial machinery & equipment) and Blue Ocean (global maritime/shipping).

Chart 9. Crown Capital Fund IV, LP and Blue Ocean Breakdown by Sector as of December 31, 2017



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

Aligned with the Fund's mandate and pending further investments in private mortgages or increases in capital contributions to Crown Fund IV and Blue Ocean, approximately 6.8% (December 31, 2016: 7.5%) of its investments (excluding Crown) in the portfolio consist of liquid assets, as follows:

(i) cash and subscription receivables;

(ii) a debt holding in a Digicel Limited bond which matures March 1, 2023. Although the bond was issued at U.S. $100.00, we bought it subsequently at U.S. $87.50 so that while its coupon is U.S. $6.75 per annum, its effective yield to the Fund is currently just over 7% per annum as its price is rising and approaches its par value at its original issuance. Digicel is a leading wireless telecommunications business in the Caribbean with dominant market shares of above 50% in 20 markets. The accredited rating agency Moody's ranks the bond at 'B1' level which we believe reflects in part the low ratings attributed to many sovereigns in the Caribbean in which Digicel operates. Christopher Wain-Lowe, lived and worked in the Caribbean from 2000 to 2002 and established early relations with Digicel when he was Group Managing Director of National Commercial Bank Jamaica Limited at that time. Digicel is believed to be the most widely held emerging market credit by U.S. high yield accounts and we believe represents an attractively priced asset with credit credentials similar to those sought and adopted by Crown;

(iii) Seventeen preferred shares, mostly bought at their initial public offerings, all investment grade rated by DBRS Limited and/or by Standard & Poor's rating agency, including 11 preferred shares which feature interest rate floors built into their structure whereby investors have the comfort of knowing the dividend rate cannot be adjusted lower than the initial rate, ranging from 4.75% to 6.25%;

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

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

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

The portfolio also includes an equity holding in Crown, equivalent to 4.8% of the Fund's portfolio of investments and an exclusive investment in Portland's private offering in renewable energy, Portland GEEREF LP, equivalent to 5.5% of the Fund's portfolio of investments.

The Partnership, may from time to time borrow from a bank, prime broker, the Manager or its affiliates but such borrowings are subject to the restriction that they will not exceed 25% of the total assets of the Partnership. During the period, the portfolio has occasionally borrowed to manage cash flow requirements which resulted in a borrowing with the Partnership's prime broker of $3.6 million, representing 4.4% of the total assets of the Partnership as at December 31, 2017. The Partnership also has a U.S. $6 million revolving loan facility that was drawn U.S. $4.7 million, representing 7.1% of the total assets of the Partnership as at December 31, 2017. The total leverage of the Partnership was 11.3% as at December 31, 2017.

Credit risk

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

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

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

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

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

In selecting Crown as a Specialty Investment Manager to manage a portfolio of commercial loans, we reviewed their track record of previously directing three special situation debt funds which now includes the deployment of over $600 million in more than 40 secondary debt transactions since 2002. Across Crown's completed 34 transactions to date, they have averaged an IRR of approximately 15% per transaction. In addition, Crown's anticipated typical characteristics for the special situation financings being undertaken by Crown Fund IV include: loans of duration 6 months to 5 years, and covenants including debt/EBITDA typically less than 4x which is within our preferred risk parameters. Christopher Wain-Lowe is a non-voting observer member of Crown's investment committee.

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

Impairment of financial assets

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

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

As at December 31, 2017, we recognized that three mortgages (compared to two mortgages at the end of 2016 and three mortgages in 2015) have objective evidence of financial difficulty and from the date of recognition, classified these mortgages as non-performing loans, with their mortgage interest accrued into revenue being discounted by way of creating a specific allowance.

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

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

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

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

(iii) Excess credit spread: this is determined by Crown at the inception of the loan and unless the loan becomes impaired is expected to decline over the life of the loan, taking into account the projected de-leveraging and increase in profitability.

(iv) Excess illiquidity spread: this is determined by Crown at the inception of the loan and unless the loan becomes impaired is expected to decline over the life of the loan as the premium required for holding an illiquid security declines with time.

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

As detailed above (see Recent Developments and Outlook – Canadian Commercial Loan Market), in May we became aware that Crown had amended the debt agreement on its $15 million loan with Petrowest and had subsequently provided an additional bridge loan in the amount of $12 million (with $2 million of this loan directly syndicated to a limited partner of Crown Fund IV [not the Partnership] to allow them to re-finance its operations). Although the loans were made against tangible assets, on August 15, 2017, it was announced that Petrowest was placed into receivership by its creditors and banking syndicate, with agreement from its Board of Directors. The Receiver maintained regular contact with the banking syndicate and Crown. Crown ultimately published a press release as at November 3, 2017, explaining that the Receiver had prepared all of the company's assets for sale or had monetized the assets and stated all Crown loans are expected to be fully repaid. We expect the receivership process to be finalized in the first half of 2018. As at December 31, 2017, no impairment was recognized on loans to Petrowest in Crown Fund IV.

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

Measurement of credit risk via 'Expected Loss'

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

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

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

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

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

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

Based on this Expected Loss methodology, we have conducted regular assessments and have assigned a collective allowance/collective loan loss provision attributable to the mortgage portfolio holdings. As at December 31, 2017, we have assigned an overall rate of 2.03% (December 31, 2016: 1.83%) on the outstanding balances in the mortgage portfolio. Last year, a collective allowance was introduced equal to 1% of the principal balance of the commercial loans through Crown Fund IV in the portfolio. In both the collective allowances for mortgages and loans, we recognize that such related losses have yet to be identified. These Expected Loss collective allowances are a deduction from the calculated NAV and the distributions from the Fund are paid after deducting the specific and collective allowances. The Manager does not make an additional allowance for Blue Ocean as it is required to recognize an impairment/collective allowance under the Code.

We believe our approach towards collective allowances is in harmony with, and so an intermediate step towards, the introduction of International Financial Reporting Standards, IFSR 9, the mandatory effective date of which was January 1, 2018, namely that we are setting aside collective provisions on performing and 'watch listed' loans, so establishing coverage of credit risk based on expected losses.

Notes

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

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

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

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

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

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

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

Management's Responsibility for Financial Reporting

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

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

KPMG LLP is the external auditor of the Fund. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the financial statements. Their report is attached.

"Michael Lee-Chin"

Michael Lee-Chin
Director
March 9, 2018

"Robert Almeida"

Robert Almeida
Director
March 9, 2018

Independent Auditors' Report

To the Unitholders of Portland Private Income Fund

We have audited the accompanying financial statements of Portland Private Income Fund, which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

KPMG LLP

Chartered Professional Accountants, Licenced Public Accountants

March 9, 2018
Toronto, Canada

Statements of Financial Position

as at December 31		2017		2016
Assets				
Current Assets				
Cash and cash equivalents	$	234,919	$	9,446
Subscriptions receivable		1,587,871		3,847,447
Receivable for investments sold		-		235,468
Interest receivable		576,911		354,636
Investments (note 5)		77,225,703		51,554,535
		79,625,404		56,001,532
Liabilities				
Current Liabilities				
Management fees payable		36,041		65,263
Service fees payable		14,214		27,869
Expenses payable		29,129		39,056
Redemptions payable		15,755		-
Payable for investments purchased		1,526,000		3,785,000
Distributions payable		201,159		178,753
		1,822,298		4,095,941
Net Assets Attributable to Holders of Redeemable Units	$	77,803,106	$	51,905,591
Net Assets Attributable to Holders of Redeemable Units Per Series				
Series A		16,150,404		10,731,905
Series F		61,650,027		41,171,223
Series O		2,675		2,463
	$	77,803,106	$	51,905,591
Number of Redeemable Units Outstanding (note 6)				
Series A		328,552		215,111
Series F		1,229,242		811,232
Series O		55		50
Net Assets Attributable to Holders of Redeemable Units Per Unit				
Series A		49.16		49.89
Series F		50.15		50.75
Series O		48.53		49.22

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

"Michael Lee-Chin" Director

"Robert Almeida" Director

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

Statements of Comprehensive Income

for the periods ended December 31,	2017	2016
Income		
Net gain (loss) on investments		
Interest for distribution purposes	$ 454,780	$ 750,578
Net realized gain (loss) on investments	-	5,237
Change in unrealized appreciation (depreciation) on investments	5,438,195	3,046,218
Total income (net)	5,892,975	3,802,033
Expenses		
Management fees (note 8)	367,593	209,746
Securityholder reporting costs	241,347	68,252
Collective and specific allowances (note 3)	211,935	228,329
Service fees (note 8)	147,448	101,638
Mortgage administration fees	48,980	76,338
Audit fees	19,912	19,320
Legal fees	10,950	623
Independent review committee fees	3,392	3,764
Custodial fees	480	-
Organization expenses (note 8)	-	13,768
Total operating expenses	1,052,037	721,778
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	$ 4,840,938	$ 3,080,255
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Series		
Series A	843,794	676,242
Series F	3,996,932	2,403,795
Series O	212	218
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit		
Series A	3.22	3.79
Series F	3.90	4.39
Series O	4.05	4.58

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

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

for the periods ended December 31,	2017	2016
Net Assets Attributable to Holders of Redeemable Units at Beginning of Period		
Series A	$ 10,731,905	$ 6,915,696
Series F	41,171,223	19,041,867
Series O	2,463	2,245
	51,905,591	25,959,808
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units		
Series A	843,794	676,242
Series F	3,996,932	2,403,795
Series O	212	218
	4,840,938	3,080,255
Distributions to Holders of Redeemable Units		
From net investment income		
Series A	(926,858)	(598,750)
Series F	(3,819,394)	(2,554,487)
Series O	(168)	(172)
	(4,746,420)	(3,153,409)
From net realized gains on investments		
Series A	-	-
Series F	-	(20,767)
Series O	-	-
	-	(20,767)
From return of capital		
Series A	(119,703)	(115,005)
Series F	(788,285)	-
Series O	(81)	(54)
	(908,069)	(115,059)
Net Decrease from Distributions to Holders of Redeemable Units	(5,654,489)	(3,289,235)
Redeemable Unit Transactions		
Proceeds from redeemable units issued		
Series A	7,027,784	4,618,655
Series F	18,960,662	21,472,590
Series O	-	-
	25,988,446	26,091,245
Reinvestments of distributions		
Series A	845,143	555,077
Series F	2,787,998	1,636,852
Series O	249	226
	3,633,390	2,192,155
Redemptions of redeemable units		
Series A	(2,251,661)	(1,320,010)
Series F	(659,109)	(808,627)
Series O	-	-
	(2,910,770)	(2,128,637)
Net Increase (Decrease) from Redeemable Unit Transactions	26,711,066	26,154,763
Net Assets Attributable to Holders of Redeemable Units at End of Period		
Series A	16,150,404	10,731,905
Series F	61,650,027	41,171,223
Series O	2,675	2,463
	$ 77,803,106	$ 51,905,591

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

Statements of Cash Flows

for the periods ended December 31,	2017	2016
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	$ 4,840,938	$ 3,080,255
Adjustments for:		
Net realized (gain) loss on investments	-	(5,237)
Change in unrealized (appreciation) depreciation on investments	(5,438,195)	(3,046,218)
Increase (decrease) in collective and specific allowances	211,935	228,329
(Increase) decrease in interest receivable	(222,275)	112,156
Increase (decrease) in management fees, service fees, and expenses payable	(52,804)	110,113
Purchase of investments	(22,914,000)	(25,740,458)
Proceeds from sale of investments	445,560	4,420,115
Net Cash Generated (Used) by Operating Activities	(23,128,841)	(20,840,945)
Cash Flows from Financing Activities		
Distributions to holders of redeemable units, net of reinvested distributions	(1,998,693)	(1,010,052)
Proceeds from redeemable units issued	25,989,943	22,668,258
Amount paid on redemption of redeemable units	(636,936)	(808,627)
Net Cash Generated (Used) by Financing Activities	23,354,314	20,849,579
Net increase (decrease) in cash and cash equivalents	225,473	8,634
Cash and cash equivalents - beginning of period	9,446	812
Cash and cash equivalents - end of period	234,919	9,446
Cash and cash equivalents comprise:		
Cash at bank	$ 234,919	$ 9,446
From operating activities:		
Interest received, net of withholding tax	$ 232,505	$ 862,734
From financing activities:		
Distributions paid	$ 1,998,693	$ 1,010,052

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

Schedule of Investment Portfolio
as at December 31, 2017

No. of Units	Description		Average Cost		Fair Value	% of Net Assets Attributable to Holders of Redeemable Units
UNDERLYING FUNDS						
1,044,997	Portland Private Income LP Class B (Appendix A)	$	65,278,539	$	74,613,581	95.9%
MORTGAGES						
	Private Mortgage Loans (note 5)		3,096,816		2,612,122	3.4%
		$	68,375,355		77,225,703	99.3%
	Other assets less liabilities				577,403	0.7%
	NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			$	77,803,106	100.0%

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

1. GENERAL INFORMATION

Portland Private Income Fund (the Fund) is an open-ended mutual fund trust established by Portland Investment Counsel Inc. (the Trustee or Manager) as trustee under the laws of Ontario pursuant to a master declaration of trust as amended and restated from time to time (Declaration of Trust) and is offered by offering memorandum dated August 24, 2017. The Fund commenced operations on January 7, 2013. The Trustee is a corporation formed under the laws of Ontario. The Trustee has ultimate responsibility for the business and undertaking of the Fund in accordance with the terms of the Declaration of Trust. The Trustee has engaged the Manager to manage the Fund on a day-to-day basis, including management of the Fund's portfolio and distribution of the units of the Fund. The registered office of the Fund is 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7.

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

These financial statements have been authorized for issue by the Board of Directors of the Manager on March 9, 2018. The financial statements of the Partnership are included in Appendix A.

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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(a) Classification

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. The Fund's investments in equity instruments and the Partnership are designated at inception and are measured at fair value through profit and loss (FVTPL).

The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount.

All other financial assets and liabilities, including mortgage investments, are classified as loans and receivables or other financial liabilities and are measured at amortized cost using the effective interest method which approximates fair value given their short term nature. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate.

The Fund's accounting policies for measuring the fair value of its investments are similar to those used in measuring its net asset value (NAV) for unitholder transactions; therefore it is expected that net assets attributable to holders of redeemable units will be the same in all material respects as the NAV per unit used in processing unitholder transactions.

(b) Recognition, de-recognition and measurement

Purchases and sales of financial assets are recognized on their trade date - the date on which the Fund commits to purchase or sell the investment. Financial assets and liabilities at FVTPL are initially recognized at fair value. Transaction costs are expensed as incurred in the statements of comprehensive income.

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

Subsequent to initial recognition, all financial assets and liabilities at FVTPL are measured at fair value. Gains and losses arising from changes in fair value of the FVTPL category are presented in the statements of comprehensive income within 'change in unrealized appreciation (depreciation) on investments' in the period in which they arise.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. If there has been no trade, the mid price (average bid and asking price) as of the close of the business on the reporting date is used to approximate fair value. 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.

Revenue recognition

'Interest for distribution purposes' shown on the statements of comprehensive income represents the interest earned by the Fund on debt securities, accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities other than zero coupon debt securities which are amortized on a straight line basis. Interest receivable is shown separately in the statements of financial position based on the debt instruments' stated rates of interest. Dividends on equity investments and distributions on investments in other investment funds are recognized as income on the ex-dividend date.

Impairment of financial assets at amortized cost and collective and specific allowances

At each reporting date, the Manager assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instruments' original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

The Manager intends to assess impairment using a combination of (i) specific allowances on impaired mortgages and (ii) on a collective basis using an expected loss model. An expected loss model looks at the following elements and multiplies them together to arrive at the percentage of the carrying value to record as a collective allowance:

- Probability of Default (PD)
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

PD is determined by assessing the credit quality of borrowers and the use of publicly available risk default data for similar mortgage and loan investments. EAD is the estimate of what the outstanding balance will be at the time of default, if the borrower does default. LGD is the unrecovered part of EAD if there is a default requiring recovery of collateral or payments under a guarantee.

At least annually, the Manager will estimate a collective allowance attributable to the portfolio based on probabilities of inherent losses that are as yet unidentified. As at December 31, 2017, the Fund recognized a collective allowance equal to 2.92% (December 31, 2016: 1.83%) of the value of private mortgage loans plus accrued interest thereon. The mortgages held by the Fund are part of a portfolio of mortgages that have a collective allowance of 2.03% as of December 31, 2017 in combination with the Partnership. As at December 31, 2017, the value of private mortgage loans plus accrued interest was reduced by $56,398 (December 31, 2016: $46,243), representing the collective allowance for impairment.

As at December 31, 2017, three (two as at December 31, 2016) mortgage loans were identified as non-performing and the carrying value was reduced by way of a specific allowance in the amount of $428,316 (December 31, 2016: $226,515) on an aggregate carrying value (before the deduction of the specific allowance) of $1,742,986 (December 31, 2016: $1,134,560).

During the period ended December 31, 2017, $211,935 (December 31, 2016: $228,329) was presented as 'Collective and specific allowances' in the statements of comprehensive income, of which $10,134 (December 31, 2016: $9,413) related to the collective allowance and $201,801 (December 31, 2016: $218,916) related to the specific allowance mentioned above.

Foreign currency translation

The Fund's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the reporting date. Foreign exchange gains and losses related to assets and liabilities at amortized cost are recognized in profit and loss and are presented as 'foreign exchange gain (loss) on cash and other net assets' on the statements of comprehensive income. Realized foreign exchange gains and losses related to investments are recognized when incurred and are presented in the statements of comprehensive income within 'net realized gain (loss) on investments'.

Unrealized exchange gains or losses on investments are included in 'change in unrealized appreciation (depreciation) on investments' in the statements of comprehensive income.

'Foreign exchange gain (loss) on cash and other net assets' arise from sale of foreign currencies, currency gains or losses realized between trade and settlement dates on securities transactions, and the difference between the recorded amounts of dividend, interest and foreign withholding taxes and the Canadian dollar equivalent of the amounts actually received or paid.

Cash and cash equivalents

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

Cost of investments

The cost of investments represents the average cost for each security excluding transaction costs. On the schedule of investment portfolio, transaction costs have been deducted in aggregate from the total cost of individual investments which include transaction costs.

Redeemable Units

The Fund issued three series of redeemable units, which are redeemable monthly upon 60 days' notice at the holder's option. Such units do not have identical rights and are classified as financial liabilities. Redeemable units can be put back to the Fund at any dealing date for cash equal to a proportionate share of the Fund's NAV attributable to the unit series. Units are redeemable monthly.

The redeemable units are carried at the redemption amount that is payable at the statement of financial position date if the holder exercises the right to put the units back to the Fund.

Redeemable units are issued and redeemed at the holder's option at prices based on the Fund's NAV per unit at the time of issue or redemption. The Fund's NAV per unit is calculated by dividing the net assets attributable to the holders of each series of redeemable units with the total number of outstanding redeemable units for each respective series. In accordance with the provisions of the Fund's regulations, investment positions are valued based on the last traded market price for the purpose of determining the NAV per unit for subscriptions and redemptions.

Expenses

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

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

Interest expense associated with borrowing is recorded on an accrual basis.

Organization expenses

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

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

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

Distribution to Unitholders

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

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

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

Future accounting changes

New standards, amendments and interpretations effective after January 1, 2017 and that have not been early adopted

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after January 1, 2018. Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognized at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model. On adoption of IFRS 9, the Fund's investment portfolio will continue to be classified as fair value through profit or loss, except for commercial mortgages and loans and other financial assets which are held for collection which will continue to be measured at amortized cost. The Manager is evaluating the impact of the new standard on the value of its Underlying Funds.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments under IAS 39, Financial Instruments - Recognition and Measurement, the Manager is required to make significant judgments about whether or not the investments of the Fund are considered held for trading or that the fair value option can be applied to those that are not. The Manager has concluded that the fair value option can be applied to the Fund's investments that are not considered held for trading. Such investments have been designated at FVTPL, except private mortgage loans.

The Manager has concluded that private mortgage loans are classified as loans and receivables and measured at amortized cost which approximates their fair value due to their short term nature.

Functional and presentation currency

The Fund's investors are mainly from Canada, with subscriptions and redemptions of the redeemable units denominated in Canadian dollars. The primary activity of the Fund is to invest, either directly or indirectly via the Partnership, in a portfolio of private loans and mortgages. The performance of the Fund is measured and reported to investors in Canadian dollars. The Manager considers the Canadian dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Canadian dollars, which is the Fund's functional and presentation currency.

5. FINANCIAL INSTRUMENTS

a) Categorization of financial instruments

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2017:

Assets	Financial assets at FVTPL Designated at Inception ($)	Financial assets at amortized cost ($)	Total ($)
Cash and cash equivalents	-	234,919	234,919
Subscriptions receivable	-	1,587,871	1,587,871
Interest receivable	-	576,911	576,911
Mortgage investments	-	2,612,122	2,612,122
Underlying Fund	74,613,581	-	74,613,581
Total	**74,613,581**	**5,011,823**	**79,625,404**

Liabilities	Financial liabilities at FVTPL Designated at Inception ($)	Financial liabilities at amortized cost ($)	Total ($)
Management fees payable	-	36,041	36,041
Service fees payable	-	14,214	14,214
Expenses payable	-	29,129	29,129
Redemptions payable	-	15,755	15,755
Payable for investments purchased	-	1,526,000	1,526,000
Distributions payable	-	201,159	201,159
Total	**-**	**1,822,298**	**1,822,298**

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2016:

Assets	Financial assets at FVTPL Designated at Inception ($)	Financial assets at amortized cost ($)	Total ($)
Cash and cash equivalents	-	9,446	9,446
Subscriptions receivable	-	3,847,447	3,847,447
Receivable for investments sold	-	235,468	235,468
Interest receivable	-	354,636	354,636
Mortgage investments	-	3,034,148	3,034,148
Underlying Fund	48,520,387	-	48,520,387
Total	**48,520,387**	**7,481,145**	**56,001,532**

Liabilities	Financial liabilities at FVTPL Designated at Inception ($)	Financial liabilities at amortized cost ($)	Total ($)
Management fees payable	-	65,263	65,263
Service fees payable	-	27,869	27,869
Expenses payable	-	39,056	39,056
Payable for investments purchased	-	3,785,000	3,785,000
Distributions payable	-	178,753	178,753
Total	**-**	**4,095,941**	**4,095,941**

The following table presents the net gain (loss) on financial instruments at FVTPL by category for the periods ending December 31, 2017 and December 31, 2016:

	Net gains (losses) ($)	
Category	2017	2016
Financial Assets at FVTPL:		
Designated at inception	5,438,195	3,051,455
Total	**5,438,195**	**3,051,455**

b) Risks associated with financial instruments

The Fund's investment activities may be exposed to various financial risks, including market risk (which includes price risk, interest rate risk and currency risk), liquidity risk and credit risk. The Fund's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Fund's investment objectives and risk tolerance per the Fund's offering documents. All investments result in a risk of loss of capital.

Price risk

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

As at December 31, 2017 and December 31, 2016, the Fund did not have significant direct exposure to price risk. The Fund has indirect exposure to price risk through its investment in the Partnership.

Interest rate risk

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

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

As of December 31, 2017 and December 31, 2016, the Fund's mortgage investments are in fixed rate, short-term mortgages. The Fund generally intends to hold all of its mortgages to maturity. There is hardly any secondary market for the Fund's mortgages and in syndication transactions such as the ones in which the Fund participates; these mortgages are generally traded at face value without regard to changes in interest rates.

The following is a summary of the carrying value (at amortized cost) of mortgage investments segmented by gross interest rate (before deduction of mortgage administration fees) as at December 31, 2017 and December 31, 2016:

	0% - 11.99% ($)	12% - 12.99% ($)	13% - 13.99% ($)	14% - 14.99% ($)	15% - 15.99% ($)	Total ($)
December 31, 2017	2,187,988	-	-	424,134	-	2,612,122
December 31, 2016	1,916,505	-	-	1,117,643	-	3,034,148

The following is a summary of the carrying value (at amortized cost) of mortgage investments segmented by term as at December 31, 2017 and December 31, 2016:

	12 months or less ($)	13 to 24 months ($)	24 to 36 months ($)	Total ($)
December 31, 2017	2,137,314	474,808	-	2,612,122
December 31, 2016	2,388,066	646,082	-	3,034,148

The Fund has indirect exposure to interest rate risk through its investment in the Partnership.

The Fund's balances of interest receivable, subscriptions receivable, accrued expenses and distributions payable have no exposure to interest rate risk due to their short term nature.

Currency risk

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

As at December 31, 2017 and December 31, 2016, the Fund did not have significant exposure to currency risk. The Fund has indirect exposure to currency risk through its investment in the Partnership.

Liquidity risk

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

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

All obligations of the Fund including management fees payable, service fees payable, expenses payable, redemptions payable, payable for investments purchased, and distributions payable, as applicable, were due within 3 months from the financial reporting date. Issued redeemable units are payable on demand.

Credit risk

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

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

The Fund's credit risk management objectives are to:

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

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

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

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

The maximum direct exposure to credit risk at December 31, 2017 is calculated as the face value of the private mortgage loans plus the accrued interest thereon less the collective allowance and specific allowance, which totaled $3,189,033 (December 31, 2016: $3,388,786). The Fund has recourse under the terms of the private mortgage loans in the event of default by the borrower, in which case the Fund would have a claim against the underlying property and security.

The Fund had indirect exposure to mortgage loans through its investment in the Partnership. The maximum credit risk of this indirect exposure at December 31, 2017 was $35,149,909 (December 31, 2016: $20,833,682).

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

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

The following is a summary of the private mortgage loans held as at December 31, 2016:

	Number of Mortgages	Carrying Value ($)	Carrying Value + Accrued Interest ($)
First Mortgages	6	3,034,148	3,388,801
Total	**6**	**3,034,148**	**3,388,801**

The following is a summary of the private mortgage loans held by the Fund segmented by type of project as at December 31, 2017 and December 31, 2016:

	Pre-development ($)	Pre-development/ Construction ($)	Construction ($)	Term ($)	Total ($)
December 31, 2017	-	802,564	798,668	1,010,890	2,612,122
December 31, 2016	-	340,431	1,666,019	1,027,698	3,034,148

In addition to private mortgage loans, the Fund has indirect exposure to commercial loans through its investment in the Partnership, which in turn invests in Crown Capital Fund IV, L.P. (Crown Fund IV) and Blue Ocean Fund (Blue Ocean). The portfolio of commercial loans are generally expected to be first and second lien senior loans and mezzanine debt of 1 to 10 years amortization period and with terms being between 1 to 7 years, although some may be a much longer duration while bridge loans would typically be less than one year.

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

As determined by the Manager, the fair value of Crown Fund IV was reduced by a collective allowance equal to $228,642 (December 31, 2016: $144,320) which represents 1% of the principal of the commercial loans held therein. The total fair value of the commercial loans plus accrued interest, less the collective allowance, to which the Fund was indirectly exposed was $28,061,100 (December 31, 2016: $15,028,907).

Based on current expectations, the Manager expects the composition of commercial loans within Blue Ocean to have appropriate loan to value and proper asset protection through their tenors. The investments which are senior secured loans would ordinarily expect to be within the range of 50% – 80% of the determined value of their underlying assets.

EnTrustPermal Ltd. (EnTrustPermal), as a specialty investment manager has appointed Citco Fund Services (Ireland) Limited to act as an external valuer to value Level 1 and certain Level 2 securities of Blue Ocean. Level 3 securities, being mainly the loans, lease portfolios and similar investments within Blue Ocean will be valued by EnTrustPermal with the assistance of one or more specialist maritime pricing providers, in accordance with fair value accounting principles. EnTrustPermal conducts and provides quarterly valuations at a minimum to the Manager. Under U.S. Accounting Standards Codification 820 Fair Value Measures and Disclosures (the Code), EnTrustPermal is required to fair value including an impairment / collective allowance. As Blue Ocean is required to recognize an impairment / collective allowance under the Code, the Manager makes no additional allowance for credit risk.

c) Fair value of financial instruments

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

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

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

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

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

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

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

The following tables illustrate the classification of the Fund's financial instruments within the fair value hierarchy as at December 31, 2016:

	Assets at fair value as at December 31, 2016			
	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Underlying Fund	-	48,520,387	-	48,520,387
Total	-	**48,520,387**	-	**48,520,387**

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

d) Structured entities

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

The exposure to investment in the Partnership at fair value as at December 31, 2017 and December 31, 2016 is disclosed in the following tables. This investment is included at its NAV per unit in financial assets at FVTPL in the statements of financial position. The Manager's best estimate of the maximum exposure to loss from the Fund's investment in the Partnership is the fair value below.

December 31, 2017:

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

December 31, 2016:

Description	Net asset value of Underlying Fund ($)	Investment at fair value ($)	% of Net Assets attributable to holders of redeemable units
Portland Private Income LP	48,520,448	48,520,387	100.0%

6. REDEEMABLE UNITS

The Fund is permitted to issue an unlimited number of redeemable units issuable in Series A, Series F and Series O Units, having such terms and conditions as the Manager may determine. Additional series may be offered in the future on different terms, including different fee and dealer compensation terms and different minimum subscription levels. Each unit of a series represents an undivided ownership interest in the net assets of the Fund attributable to that series of units.

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

Units of the Fund are available in multiple series as outlined below. The principal difference between the series of units relates to the management fee payable to the Manager, the compensation paid to dealers and the expenses payable by the series. All units are entitled to participate in the Fund's liquidation of assets on a series basis. Units are issued as fully paid and non-assessable and are redeemable at the NAV per unit of the applicable series of units being redeemed, determined at the close of business on the day the redemption request is submitted.

Series A Units are available to all investors who meet the eligibility requirements.

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

Series O Units are available to certain institutional or other investors.

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

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

The number of units issued and outstanding for the period ended December 31, 2017 was as follows:

	Balance, Beginning of Period	Units Issued Including Switches from Other Series	Units Reinvested	Units Redeemed Including Switches to Other Series	Balance, End of Period
Series A	215,111	141,952	17,085	45,596	328,552
Series F	811,232	375,750	55,317	13,057	1,229,242
Series O	50	-	5	-	55

The number of units issued and outstanding for the period ended December 31, 2016 was as follows:

	Balance, Beginning of Period	Units Issued Including Switches from Other Series	Units Reinvested	Units Redeemed Including Switches to Other Series	Balance, End of Period
Series A	138,036	92,329	11,093	26,347	215,111
Series F	373,648	421,330	32,120	15,866	811,232
Series O	45	-	5	-	50

7. TAXATION

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

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

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

8. MANAGEMENT FEES AND EXPENSES

Pursuant to the Fund's offering memorandum, the Fund agrees to pay management fees to the Manager, calculated and accrued on each valuation date and paid monthly. The annual management fee rate for Series A and Series F Units is 0.5%. Management fees on Series O Units are negotiated and are charged to the investors who hold Series O Units, not the Fund. The Fund is also charged service fees on Series A Units of 1.0% per annum calculated and accrued on each Valuation Date and paid monthly. The Manager distributes the service fees to advisors as a trailing commission.

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

The Fund is responsible for, and the Manager is entitled to reimbursement from the Fund for all costs associated with its creation and organization, including legal and registration fees associated with the formation of the Fund in the amount of $36,553 (excluding applicable taxes, such as HST). The Fund is required to re-pay the Manager over three years commencing in 2014 and completed its re-payments by the end of 2016. During the period ended December 31, 2017, the Fund was charged $nil (December 31, 2016: $13,768) for organization expenses, including applicable taxes.

9. SOFT DOLLARS

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

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

10. RELATED PARTY TRANSACTIONS

The following table outlines the management fees, service fees and operating expense reimbursements that were charged to the Fund by the Manager during the periods ended December 31, 2017 and December 31, 2016. The table also includes the amount of operating expense reimbursement that was made to affiliates of the Manager for administrative services provided in managing the day-to-day operation of the Fund. All of the dollar amounts in the table below exclude applicable GST or HST.

Period ended	Management Fees ($)	Service Fees ($)	Operating Expense Reimbursement ($)	Organizational Expense Reimbursement ($)	Operating Expenses Reimbursed to Affiliates of the Manager ($)
December 31, 2017	325,443	130,553	244,446	-	2,866
December 31, 2016	185,807	90,038	81,464	12,184	5,207

The Fund owed the following amounts to the Manager:

As at	Management Fees ($)	Service Fees ($)	Operating Expense Reimbursement ($)	Organizational Expense Reimbursement ($)
December 31, 2017	31,879	12,591	25,789	-
December 31, 2016	57,778	24,715	31,530	3,046

The Manager, its officers and directors (Related Parties) may invest in units of the Fund from time to time in the normal course of business. All such transactions are measured at NAV per unit. As at December 31, 2017, twelve Related Parties owned less than 1% of the net assets of the Fund. As at December 31, 2016, thirteen Related Parties owned less than 1% of the net assets of the Fund.

11. EXEMPTION FROM FILING

The Fund is relying on the exemption obtained in National Instrument 81-106, Part 2.11 not to file its financial statements with the Ontario Securities Commission.

Statement of Corporate Governance Practices

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

APPENDIX A

Portland Private Income LP

2017 Annual Report

December 31, 2017

▪ PARTNERSHIP INFORMATION

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

Management's Responsibility for Financial Reporting

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

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

KPMG LLP is the external auditor of the Partnership. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the financial statements. Their report is attached.

"Michael Lee-Chin"

Michael Lee-Chin
Director
March 9, 2018

"Robert Almeida"

Robert Almeida
Director
March 9, 2018

Independent Auditors' Report

To the Limited Partners of Portland Private Income LP

We have audited the accompanying financial statements of Portland Private Income LP, which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Portland Private Income LP as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licenced Public Accountants

March 9, 2018
Toronto, Canada

Statements of Financial Position

as at December 31,	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 439	$ 38,491
Subscriptions receivable	1,526,000	3,785,000
Receivable for investments sold	905	2,294,271
Interest receivable	590,885	451,046
Dividends receivable	59,739	17,461
Investments (note 5)	76,867,208	40,943,566
Investments - pledged as collateral (note 5 and 9)	5,269,591	3,235,640
	84,314,767	50,765,475
Liabilities		
Current Liabilities		
Borrowing (note 9)	9,545,869	2,209,735
Expenses payable	49,568	34,720
Payable for investments purchased	103,747	-
Derivative liabilities	1,830	472
	9,701,014	2,244,927
Net Assets Attributable to Holders of Redeemable Units	$ 74,613,753	$ 48,520,548
Equity		
General Partner's Equity	100	100
Net Assets Attributable to Holders of Redeemable Units Per Class		
Class A	72	61
Class B	74,613,581	48,520,387
	$ 74,613,653	$ 48,520,448
Number of Redeemable Units Outstanding (note 6)		
Class A	1	1
Class B	1,044,997	742,379
Net Assets Attributable to Holders of Redeemable Units Per Unit		
Class A	72.42	61.00
Class B	71.40	65.36

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

"Michael Lee-Chin"

Director

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

Statements of Comprehensive Income

for the periods ended December 31,	2017	2016
Income		
Net gain (loss) on investments and derivatives		
Dividends	$ 453,484	$ 314,797
Interest for distribution purposes	3,484,548	2,203,528
Net realized gain (loss) on investments and options	23,027	14,396
Change in unrealized appreciation (depreciation) on investments and derivatives	2,456,065	1,239,226
	6,417,124	3,771,947
Other income		
Foreign exchange gain (loss) on cash and other net assets	46,008	(6,108)
Total income (net)	6,463,132	3,765,839
Expenses		
Mortgage administration fees	465,014	297,845
Collective and specific allowances (note 3)	288,768	254,078
Interest expense and bank charges	143,284	12,677
Securityholder reporting costs	55,918	90,661
Audit fees	33,472	25,273
Withholding tax expense	26,224	22,497
Transaction costs	5,982	5,250
Organization expenses (note 8)	4,114	4,114
Custodial fees	1,710	829
Legal fees	441	1,158
Total operating expenses	1,024,927	714,382
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	$ 5,438,205	$ 3,051,457
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Class		
Class A	11	2
Class B	5,438,194	3,051,455
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit		
Class A	10.59	2.00
Class B	6.05	6.11

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

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

for the periods ended December 31,	2017	2016
Net Assets Attributable to Holders of Redeemable Units at Beginning of Period		
Class A	$ 61	$ 59
Class B	48,520,387	19,124,914
	48,520,448	19,124,973
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units		
Class A	11	2
Class B	5,438,194	3,051,455
	5,438,205	3,051,457
Redeemable Unit Transactions		
Proceeds from redeemable units issued		
Class A	-	-
Class B	20,655,000	26,426,518
	20,655,000	26,426,518
Redemptions of redeemable units		
Class A	-	-
Class B	-	(82,500)
	-	(82,500)
Net Increase (Decrease) from Redeemable Unit Transactions	20,655,000	26,344,018
Net Assets Attributable to Holders of Redeemable Units at End of Period		
Class A	72	61
Class B	74,613,581	48,520,387
	$ 74,613,653	$ 48,520,448

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

Statements of Cash Flows

for the periods ended December 31,	2017	2016
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units	$ 5,438,205	$ 3,051,457
Adjustments for:		
Net realized (gain) loss on investments and options	(23,027)	(14,396)
Change in unrealized (appreciation) depreciation on investments and derivatives	(2,456,065)	(1,239,226)
Unrealized foreign exchange (gain) loss on cash	136	(115)
Increase (decrease) in collective and specific allowances	288,768	254,078
(Increase) decrease in interest receivable	(139,839)	(207,412)
(Increase) decrease in dividends receivable	(42,278)	(8,723)
Increase (decrease) in expenses payable	14,848	25,231
Purchase of investments	(39,556,412)	(36,826,161)
Proceeds from sale of investments	6,187,614	9,661,937
Net Cash Generated (Used) by Operating Activities	(30,288,050)	(25,303,330)
Cash Flows from Financing Activities		
Increase (decrease) in borrowing	7,336,134	1,138,002
Proceeds from redeemable units issued	22,914,000	24,285,988
Amount paid on redemption of redeemable units	-	(82,500)
Net Cash Generated (Used) by Financing Activities	30,250,134	25,341,490
Net increase (decrease) in cash and cash equivalents	(37,916)	38,160
Unrealized foreign exchange gain (loss) on cash	(136)	115
Cash and cash equivalents - beginning of period	38,491	216
Cash and cash equivalents - end of period	439	38,491
Cash and cash equivalents comprise:		
Cash at bank	$ 439	$ 38,491
From operating activities:		
Interest received, net of withholding tax	$ 3,344,709	$ 1,996,116
Dividends received, net of withholding tax	$ 384,982	$ 283,577
From financing activities:		
Interest paid	$ 103,003	$ 8,239

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

Schedule of Investment Portfolio

as at December 31, 2017

No. of Units/ Shares/ Face Value	Description	Average Cost	Fair Value	% of Net Assets Attributable to Holders of Redeemable Units
BONDS				
Bermuda				
200,000	Digicel Limited Callable 6.750% March 1, 2023	$ 246,654	$ 247,166	
		246,654	247,166	0.3%
EQUITIES - COMMON				
Bermuda				
2,000	Brookfield Business Partners L.P.	50,750	86,580	
55,000	Brookfield Property Partners L.P.	1,573,399	1,531,750	
		1,624,149	1,618,330	2.2%
Canada				
417,000	Crown Capital Partners Inc.	3,779,236	4,136,640	
15,000	RioCan Real Estate Investment Trust	362,612	365,400	
4,000	TransAlta Renewables Inc.	58,200	53,560	
		4,200,048	4,555,600	6.1%
United States				
20,010	Alcentra Capital Corporation	296,787	211,030	
64,000	Ares Capital Corporation	1,287,409	1,264,642	
32,500	BlackRock Capital Investment Corporation	338,716	254,511	
27,000	Oaktree Strategic Income Corporation	308,327	285,088	
		2,231,239	2,015,271	2.7%
	Total equities - common	8,055,436	8,189,201	11.0%
EQUITIES - PREFERRED				
Bermuda				
4,000	Brookfield Infrastructure Partners L.P., Preferred, Series 5, Fixed-Reset	100,000	103,280	
3,000	Brookfield Infrastructure Partners L.P., Preferred, Series 7, Fixed-Reset	75,000	76,620	
6,000	Brookfield Renewable Partners L.P., Preferred, Series 9, Fixed Reset	150,290	156,840	
4,000	Brookfield Renewable Partners L.P., Preferred, Series 11, Fixed-Reset	100,000	101,760	
		425,290	438,500	0.6%
Canada				
6,000	Bank of Montreal, Preferred, Series 42, Fixed-Reset	150,000	152,940	
3,000	Brookfield Asset Management Inc., Preferred, Series 48, Fixed-Reset	75,000	77,115	
6,000	Brookfield Office Properties Inc., Preferred, Series CC, Fixed-Reset	150,720	159,000	
4,000	Brookfield Office Properties Inc., Preferred, Series EE, Fixed-Reset	100,000	101,160	
5,000	ECN Capital Corp., Preferred, Series C, Fixed-Reset	116,897	118,750	
1,500	Enbridge Inc., Preferred, Series 11, Fixed-Reset	32,067	31,575	
4,500	First National Financial Corporation, Preferred, Series 1, Fixed-Reset	49,985	64,913	
2,000	Kinder Morgan Canada Ltd, Preferred, Series 1, Fixed-Reset	50,000	51,500	
4,000	National Bank of Canada, Preferred, Series 38, Fixed-Reset	100,000	103,320	
6,000	The Toronto-Dominion Bank, Preferred, Series 16, Fixed-Reset	150,000	154,020	
2,000	TransAlta Corporation, Preferred, Series B, Floating Rate	29,204	29,200	
1,500	TransCanada Corporation, Preferred, Series 15, Fixed-Reset	37,500	39,225	
1,300	Westcoast Energy Inc., Preferred, Series 12, Fixed-Reset	32,500	33,995	
		1,073,873	1,116,713	1.5%
	Total equities - preferred	1,499,163	1,555,213	2.1%
UNDERLYING FUNDS				
Canada				
67,705	Portland Global Energy Efficiency and Renewable Energy Fund LP Class O	4,269,533	4,695,846	
33,750	Crown Capital Fund IV, L.P.	25,009,478	28,061,100	
		29,279,011	32,756,946	43.9%
Ireland				
35,867	Blue Ocean Fund	4,582,530	4,823,640	6.5%
		33,861,541	37,580,586	50.4%
MORTGAGES				
Canada				
	Private Mortgage Loans (note 5)	35,241,764	34,564,633	
		35,241,764	34,564,633	46.3%

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

Schedule of Investment Portfolio
as at December 31, 2017

No. of Units/ Shares/ Face Value	Description		Cost		Fair Value	% of Net Assets Attributable to Holders of Redeemable Units
DERIVATIVES - WRITTEN OPTIONS						
Written Put Options						
Bermuda						
CAD (25)	Brookfield Property Partners L.P., Put 26, 19/01/2018		(475)		(137)	
CAD (50)	Brookfield Property Partners L.P., Put 27, 19/01/2018		(1,750)		(750)	
			(2,225)		(887)	-
United States						
USD (30)	Ares Capital Corporation, Put 15, 16/03/2018		(905)		(943)	
	Total written options		(3,130)		(1,830)	-
	Net investments		78,901,428		82,134,969	110.1%
	Transaction costs		(11,576)		-	-
		$	78,889,852		82,134,969	110.1%
	Liabilities less other assets				(7,521,316)	(10.1%)
	NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEEMABLE UNITS			$	74,613,653	100.0%

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

1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

These financial statements were authorized for issue by the Board of Directors of the General Partner on March 9, 2018.

2. BASIS OF PRESENTATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(a) Classification

The Partnership recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. The Partnership's investments in equity instruments and Underlying Funds are designated at inception and are measured at fair value through profit and loss (FVTPL).

The Partnership's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount.

All other financial assets and liabilities, including mortgage investments, are classified as loans and receivables or other financial liabilities and are measured at amortized cost using the effective interest method which approximates fair value given their short term nature. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate.

The Partnership's accounting policies for measuring the fair value of its investments and derivatives are similar to those used in measuring its net asset value (NAV) for unitholder transactions; therefore it is expected that net assets attributable to holders of redeemable units will be the same in all material respects as the NAV per unit used in processing unitholder transactions.

(b) Recognition, de-recognition and measurement

Purchases and sales of financial assets are recognized on their trade date - the date on which the Partnership commits to purchase or sell the investment. Financial assets and liabilities at FVTPL are initially recognized at fair value. Transaction costs are expensed as incurred in the statements of comprehensive income.

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

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

Exchange traded options are valued at their last traded market price where the last traded market price falls within the day's bid-ask spread. In cases where the last traded price is not within the day's bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on specific facts and circumstances. The Manager intends only to write options that trade on an exchange.

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

Subsequent to initial recognition, all financial assets and liabilities at FVTPL are measured at fair value. Gains and losses arising from change in fair value of the FVTPL category are presented in the statements of comprehensive income within 'change in unrealized appreciation (depreciation) on investments and derivatives' in the period in which they arise.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Partnership uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. If there has been no trade, the mid price (average bid and asking price) as of the close of the business on the reporting date is used to approximate fair value. The Partnership'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.

Revenue recognition

'Interest for distribution purposes' shown on the statements of comprehensive income represents the interest earned by the Partnership on debt securities, accounted for on an accrual basis. The Partnership does not amortize premiums paid or discounts received on the purchase of fixed income securities other than zero coupon debt securities which are amortized on a straight line basis. Interest receivable is shown separately in the statement of financial position based on the debt instruments' stated rates of interest. Dividends on equity investments are recognized as income on the ex-dividend date.

Impairment of financial assets at amortized cost and collective and specific allowances

At each reporting date, the Manager assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Partnership recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instruments original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

The Manager intends to assess impairment using a combination of (i) specific allowances on impaired mortgages and loans and (ii) on a collective basis using an expected loss model. An expected loss model looks at the following elements and multiplies them together to arrive at the percentage of the carrying value to record as a collective allowance:

- Probability of Default (PD)
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

PD is determined by assessing the credit quality of borrowers and the use of publicly available risk default data for similar mortgage and loan investments. EAD is the estimate of what the outstanding balance will be at the time of default, if the borrower does default. LGD is the un-recovered part of EAD if there is a default requiring recovery of collateral or payments under a guarantee.

At least annually, the Manager will estimate a collective allowance attributable to the portfolio based on probabilities of inherent losses that are as yet unidentified. As of December 31, 2017, the Partnership has recognized a collective allowance equal to 1.89% (December 31, 2016: 1.83%) of the value of private mortgage loans plus accrued interest thereon. The mortgages held by the Partnership are part of a portfolio of mortgages that have a collective allowance of 2.03% as of December 31, 2017, in combination with the Fund. The collective allowance is applied to all mortgage loans which do not already have an associated specific allowance. As at December 31, 2017, the value of private mortgage loans plus accrued interest was reduced by $677,131 (December 31, 2016: $388,363), representing the collective allowance for impairment.

In addition, the Partnership has recognized the fair value of Crown Capital Fund IV, L.P. (Crown Fund IV) to include a collective allowance equal to $228,642 (December 31, 2016: $144,320) which represents 1.00% of the principal of the commercial loans held therein.

As at December 31, 2015, the Partnership recognized a specific allowance against one of its mortgage investments because the borrower had not made its interest payments owing and was unable to pay the principal amount upon maturity. The specific allowance in relation to this mortgage investment was $62,936 on investment value of $502,559. In January 2016, the Partnership received payment of all outstanding interest and principal on the aforementioned mortgage. Following receipt of the full proceeds on the mortgage, the specific allowance in the amount of $62,936 was reversed into income.

As at December 31, 2017 and December 31, 2016, there was no specific allowance on any mortgage investments in the Partnership.

During the period ended December 31, 2017, $288,768 (December 31, 2016: $254,078) was recorded on the statements of comprehensive income as 'collective and specific allowances' of which $288,768 (December 31, 2016: $317,013) related to the collective allowance and $nil (December 31, 2016: negative $62,936) related to the specific allowance mentioned above.

Foreign currency translation

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

Unrealized exchange gains or losses on investments are included in 'change in unrealized appreciation (depreciation) on investments and derivatives' in the statements of comprehensive income.

'Foreign exchange gain (loss) on cash and other net assets' arise from sale of foreign currencies, currency gains or losses realized between trade and settlement dates on securities transactions, and the difference between the recorded amounts of dividend, interest and foreign withholding taxes and the Canadian dollar equivalent of the amounts actually received or paid.

Cash and cash equivalents

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

Cost of investments

The cost of investments represents the average cost for each security excluding transaction costs. On the schedule of investment portfolio, transaction costs have been deducted in aggregate from the total cost of individual investments which include transaction costs. Distributions characterised as return of capital that are received from Underlying Funds reduce the average cost of the investment in Underlying Funds.

Redeemable Units

The Partnership issued two classes of redeemable units that do not have identical rights. Such units are classified as financial liabilities. Redeemable units can be put back to the Partnership at any dealing date for cash equal to a proportionate share of the Partnership's NAV attributable to the unit class. Units are redeemable monthly.

The redeemable units are carried at the redemption amount that is payable at the statement of financial position date if the holder exercises the right to put the units back to the Partnership.

Redeemable units are issued and redeemed at the holder's option at prices based on the Partnership's NAV per unit at the time of issue or redemption. The Partnership's NAV per unit is calculated by dividing the net assets attributable to the holders of each class of redeemable units with the total number of outstanding redeemable units for each respective class. In accordance with the Partnership's limited partnership agreement, investment positions are measured at fair value for the purpose of determining the NAV per unit.

Expenses

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

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

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

Loan origination fees

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

Organization expenses

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

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

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

Distribution to Unitholders

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

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

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

Future accounting changes

New standards, amendments and interpretations effective after January 1, 2017 and that have not been early adopted

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after January 1, 2018. Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognized at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model. On adoption of IFRS 9 the Partnership's investment portfolio will continue to be classified as fair value through profit or loss, except for commercial mortgages and loans and other financial assets which are held for collection which will continue to be measured at amortized cost. The Manager is evaluating the impact of the new standard on the value of its Underlying Funds.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments under IAS 39, Financial Instruments - Recognition and Measurement, the Manager is required to make significant judgments about whether or not the investments of the Partnership are considered held for trading or that the fair value option can be applied to those that are not. The Manager has concluded that the fair value option can be applied to the Partnership's investments that are not considered held for trading. Such investments have been designated at FVTPL, except private mortgage loans.

The Manager has concluded that private mortgage loans are classified as loans and receivables and measured at amortized cost which approximates their fair value due to their short term nature.

Functional and presentation currency

The Partnership's investors are mainly from Canada, with subscriptions and redemptions of the redeemable units denominated in Canadian dollars. The primary activity of the Partnership is to invest in a portfolio of private loans and mortgages. The performance of the Partnership is measured and reported to the investors in Canadian dollars. The Manager considers the Canadian dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements including note disclosures are presented in Canadian dollars (unless otherwise noted), which is the Partnership's functional and presentation currency.

5. FINANCIAL INSTRUMENTS

a) Categorization of financial instruments

The following tables present the carrying amounts of the Partnership's financial instruments by category as at December 31, 2017:

Assets	Held for Trading ($)	Financial assets at FVTPL Designated at Inception ($)	Financial assets at amortized cost ($)	Total ($)
Cash and cash equivalents	-	-	439	439
Subscriptions receivable	-	-	1,526,000	1,526,000
Receivable for investments sold	-	-	905	905
Interest receivable	-	-	590,885	590,885
Dividends receivable	-	-	59,739	59,739
Mortgage Investments	-	-	34,564,633	34,564,633
Underlying Funds	-	37,580,586	-	37,580,586
Investments	-	4,721,989	-	4,721,989
Investments - pledged as collateral	-	5,269,591	-	5,269,591
Total	**-**	**47,572,166**	**36,742,601**	**84,314,767**

Liablilities	Held for Trading ($)	Financial liabilities at FVTPL Designated at Inception ($)	Financial liabilities at amortized cost ($)	Total ($)
Borrowing	-	-	9,545,869	9,545,869
Expenses payable	-	-	49,568	49,568
Payable for investments purchased	-	-	103,747	103,747
Derivative liabilities	1,830	-	-	1,830
Total	**1,830**	**-**	**9,699,184**	**9,701,014**

The following tables present the carrying amounts of the Partnership's financial instruments by category as at December 31, 2016:

Assets	Held for Trading ($)	Financial assets at FVTPL Designated at Inception ($)	Financial assets at amortized cost ($)	Total ($)
Cash and cash equivalents	-	-	38,491	38,491
Subscriptions receivable	-	-	3,785,000	3,785,000
Receivable for investments sold	-	-	2,294,271	2,294,271
Interest receivable	-	-	451,046	451,046
Dividends receivable	-	-	17,461	17,461
Mortgage investments	-	-	20,388,679	20,388,679
Underlying Funds	-	17,600,330	-	17,600,330
Investments	-	2,954,557	-	2,954,557
Investments - pledged as collateral	-	3,235,640	-	3,235,640
Total	**-**	**23,790,527**	**26,974,948**	**50,765,475**

Liablilities	Held for Trading ($)	Financial liabilities at FVTPL Designated at Inception ($)	Financial liabilities at amortized cost ($)	Total ($)
Borrowing	-	-	2,209,735	2,209,735
Expenses payable	-	-	34,720	34,720
Derivative liabilities	472	-	-	472
Total	**472**	**-**	**2,244,455**	**2,244,927**

The following table presents the net gain (loss) on financial instruments at FVTPL by category for the periods ending December 31, 2017 and December 31, 2016:

Category	Net gains (losses) ($) 2017	2016
Financial Assets at FVTPL:		
Designated at inception	6,395,434	3,759,037
Total	**6,395,434**	**3,759,037**
Financial Liabilities at FVTPL:		
Held for trading	21,690	12,910
Total	**6,417,124**	**3,771,947**

b) Risks associated with financial instruments

The Partnership's investment activities may be exposed to various financial risks, including market risk (which includes price risk, concentration risk, interest rate risk and currency risk), liquidity risk, credit risk and leverage risk. The Partnership's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Partnership's investment objectives and risk tolerance per the Partnership's offering documents. All investments result in a risk of loss of capital.

Price risk

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

If the price movement of the investments (excluding private mortgage loans and bonds) held by the Partnership on December 31, 2017 had been higher or lower by 5%, the net assets attributable to holders of redeemable units of the Partnership would have been higher or lower by $2,366,159 (December 31, 2016: $1,177,421).

Interest rate risk

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

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

As of December 31, 2017 and December 31, 2016, the Partnership's mortgage investments are in fixed rate, short-term mortgages. The Partnership generally intends to hold all of its mortgages to maturity. There is a very limited secondary market for the Partnership's mortgages and in syndication transactions such as the ones in which the Partnership participates these mortgages are generally traded at face value without regard to changes in interest rates.

The following is a summary of the carrying value (at amortized cost) of mortgage investments segmented by gross interest rate (before deduction of mortgage administration fees) as at December 31, 2017 and December 31, 2016:

	0% - 11.99% ($)	12% - 12.99% ($)	13% - 13.99% ($)	14% - 14.99% ($)	Total ($)
December 31, 2017	8,929,654	9,218,499	8,353,193	8,063,287	34,564,633
December 31, 2016	3,685,575	6,282,030	-	10,421,073	20,388,678

The following is a summary of the carrying value (at amortized cost) of mortgage investments segmented by term as at June 30, 2017 and December 31, 2016:

	12 months or less ($)	13 to 24 months ($)	24 to 36 months ($)	Total ($)
December 31, 2017	23,744,951	9,644,034	1,175,648	34,564,633
December 31, 2016	12,385,594	8,003,084	-	20,388,678

The Partnership has indirect exposure to interest rate risk through its investment in Crown Fund IV and Blue Ocean Fund (Blue Ocean) which hold commercial loans.

The Partnership's balances of dividends receivable, interest receivable, subscriptions receivable, receivable for investments sold and expenses payable have no significant exposure to interest rate risk due to their short term nature. As at December 31, 2017 and December 31, 2016, the Partnership had exposure to interest rate risk due to its borrowings as described in Note 9. If interest rates had doubled during the period ended December 31, 2017, interest expense would have been higher and ending net assets attributable to holders of redeemable units would have been lower by $103,003 (December 31, 2016: 8,239).

Currency risk

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

As at December 31, 2017 and December 31, 2016, the Partnership held investments or made use of borrowings that were denominated in currencies other than the Canadian dollar. The tables below illustrate the foreign currencies to which the Partnership had exposure on December 31, 2017 and December 31, 2016. It also illustrates the potential impact on the net assets attributable to holders of redeemable units if the Canadian dollar had strengthened or weakened by 5% in relation to each of the other currencies, with all other variables held constant.

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

	Exposure			Impact on net assets attributable to holders of redeemable units		
December 31, 2016	Monetary ($)	Non-monetary ($)	Total ($)	Monetary ($)	Non-monetary ($)	Total ($)
United States Dollar	22,527	1,870,631	1,893,158	1,126	93,532	94,658
Total	**22,527**	**1,870,631**	**1,893,158**	**1,126**	**93,532**	**94,658**
% of net assets attributable to holders of redeemable units	**-**	**3.9%**	**3.9%**	**-**	**0.2%**	**0.2%**

Liquidity risk

Liquidity risk is the risk that the Partnership will encounter difficulty in meeting obligations associated with financial liabilities. The Partnership's exposure to liquidity risk is concentrated in the cash redemption of its units.

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

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

Value of securities or cash required to satisfy written options	Less than 1 month ($)	1 to 3 months ($)	Total ($)
December 31, 2017	200,000	56,565	256,565
December 31, 2016	177,500	-	177,500

The Partnership has committed $33,750,000 to Crown Fund IV and U.S. $5,000,000 to Blue Ocean, as described in note 12. All other obligations including borrowing, expenses payable, redemptions payable, payable for investments purchased, and other liabilities, as applicable, were due within 3 months from the financial reporting date. Issued redeemable units and borrowings are payable on demand.

Credit risk

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

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

The Partnership's credit risk management objectives are to:

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

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

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

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

The maximum exposure to credit risk as at December 31, 2017 includes the face value of the private mortgage loans plus the accrued interest thereon less the collective allowance and specific allowance, which totaled $35,149,909 (December 31, 2016: $20,833,682). The Partnership has recourse under the terms of the private mortgage loans in the event of default by the borrower, in which case the Partnership would have a claim against the underlying property and security.

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

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

The following is a summary of the private mortgage loans held as at December 31, 2016:

	Number of Mortgages	Carrying Value ($)	Carrying Value + Accrued Interest ($)
First Mortgages	10	18,034,249	18,389,036
Second Mortgages	1	2,354,429	2,444,646
Total	**11**	**20,388,678**	**20,833,682**

The following is a summary of the carrying value of private mortgage loans held by the Partnership segmented by type of project as at December 31, 2017 and December 31, 2016:

	Pre-development ($)	Pre-development/ Construction ($)	Construction ($)	Term ($)	Total ($)
December 31, 2017	5,099,590	6,392,188	22,845,767	227,088	34,564,633
December 31, 2016	-	4,417,161	15,971,517	–	20,388,678

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

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

As determined by the Manager, the fair value of Crown Fund IV was reduced by a collective allowance equal to $228,642 (December 31, 2016: $144,320) which represents 1% of the principal of the commercial loans held therein. The total fair value of the commercial loans plus accrued interest, less the collective allowance was $28,061,100 (December 31, 2016: $15,028,907), making the combined total exposure to credit risk from private mortgage loans and commercial loans equal to $63,211,009 (December 31, 2016: $35,862,589).

Based on current expectations, the Manager expects the composition of commercial loans within Blue Ocean to have appropriate loan to value and proper asset protection through their tenors. The investments which are senior secured loans would ordinarily expect to be within the range of 50% – 80% of the determined value of its underlying assets.

EnTrustPermal Ltd. (EnTrustPermal), the specialty investment manager of Blue Ocean has appointed Citco Fund Services (Ireland) Limited to act as an external valuer to value Level 1 and certain Level 2 securities of Blue Ocean. Level 3 securities, being mainly the loans, lease portfolios and similar investments within Blue Ocean will be valued by EnTrustPermal with the assistance of one or more specialist maritime pricing providers, in accordance with fair value accounting principles. EnTrustPermal conducts and provides quarterly valuations at a minimum to the Manager. Under U.S. Accounting Standards Codification 820 Fair Value Measures and Disclosures (the Code), EnTrustPermal is required to fair value including an impairment / collective allowance. As Blue Ocean is required to recognize an impairment / collective allowance under the Code, the Manager makes no additional allowance for credit risk.

Leverage Risk

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

As at December 31, 2017, the amount borrowed was $9,545,869 (December 31, 2016: $2,209,735) representing 11.3% of the total assets of the Partnership (December 31, 2016: 4.4%). Interest expense incurred on amounts borrowed for the period ended December 31, 2017 was $103,003 (December 31, 2016: $8,239).

c) Fair value of financial instruments

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

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

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

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

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

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

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

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

The following table illustrates the classification of the Partnership's financial instruments within the fair value hierarchy as at December 31, 2016:

	Assets at fair value as at December 31, 2016			
	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Equities - Long	5,885,082	63,000	–	5,948,082
Fixed Income	-	242,115	-	242,115
Underlying Funds	-	-	17,600,330	17,600,330
Total	**5,885,082**	**305,115**	**17,600,330**	**23,790,527**

	Liabilities at fair value as at December 31, 2016			
	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Options - Short	(472)	-	–	(472)
Total	**(472)**	**-**	**-**	**(472)**

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

As at December 31, 2017 and December 31, 2016, the Partnership held units of Portland Global Energy Efficiency and Renewable Energy Fund LP (Portland GEEREF), which is a closed-end investment fund. Portland GEEREF has the same Manager and administrator as the Partnership. This investment is considered Level 3 in the fair value hierarchy because it does not allow redemptions or transfers of units prior to dissolution except in very limited circumstances. The Partnership measures Portland GEEREF units at the most recently published NAV per unit as reported by its administrator, considering restrictions on the Partnership's ability to redeem units of Portland GEEREF. If the NAV per unit of Portland GEEREF had been higher or lower by 5%, the net assets attributable to holders of redeemable units of the Partnership would have been higher or lower by $234,792 (December 31, 2016: $128,571).

As at December 31, 2017 and December 31, 2016, the Partnership held an interest in Crown Fund IV. Crown Fund IV invests mainly in private commercial loans that may have terms that include an equity interest in the borrower (including the granting of shares or derivatives). Crown Fund IV is valued using other valuation techniques involving the use of models to determine the discounted value of each commercial loan and the value of any equity interests. This investment is considered Level 3 in the fair value hierarchy because of the level of unobservable inputs. As such the Manager on behalf of the Partnership periodically assesses impairment on a collective basis using an expected loss model and has currently reduced the value of its investment in Crown Fund IV by applying a collective allowance equal to 1% of the principal balance of all commercial loans in the portfolio. The main variable used in the valuation technique is the discount rate applied to the loans. If the model had used a discount rate for each of the loans that was higher by 1%, the value of the Partnership's position in Crown Fund IV would have been lower by $403,142 (December 31, 2016: $287,204). If the model had used a discount rate for each of the loans that was lower by 1%, the value of the Partnership's position in Crown Fund IV would have been higher by $437,880 (December 31, 2016: $300,250).

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

Reconciliation of Level 3 Fair Value Measurement of Financial Instruments

The following tables reconcile the Fund's Level 3 fair value measurement of financial instruments for the periods ended December 31, 2017 and December 31, 2016:

December 31, 2017	Investment Funds ($)	Total ($)
Balance at beginning of period	17,600,330	17,600,330
Investment purchases during the period	17,482,110	17,482,110
Proceeds from sales during the period	(240,101)	(240,101)
Net transfers in (out) during the period	-	-
Net realized gain (loss) on sale of investments	4,550	4,550
Change in unrealized appreciation (depreciation) in value of investments	2,733,697	2,733,697
Balance at end of period	37,580,586	37,580,586
Change in unrealized appreciation (depreciation) in value of investments held at end of period	**2,733,697**	**2,733,697**

December 31, 2016	Investment Funds ($)	Total ($)
Balance at beginning of period	4,156,584	4,156,584
Investment purchases during the period	13,001,232	13,001,232
Proceeds from sales during the period	-	-
Net transfers in (out) during the period	-	-
Net realized gain (loss) on sale of investments	-	-
Change in unrealized appreciation (depreciation) in value of investments	442,514	442,514
Balance at end of period	17,600,330	17,600,330
Change in unrealized appreciation (depreciation) in value of investments held at end of period	**442,514**	**442,514**

d) Structured entities

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

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

The exposure to investments in Underlying Funds at fair value as at December 31, 2017 and December 31, 2016 is presented in the following tables. These investments are included at their fair value in financial assets at FVTPL in the statements of financial position. The Manager's best estimate of the maximum exposure to loss from the Partnership's investment in Underlying Funds is the fair value below.

December 31, 2017:

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

December 31, 2016:

Description	Net asset value of Underlying Funds	Investment at fair value ($)	% of Net asset value of Underlying Fund
Portland Global Energy Efficiency and Renewable Energy Fund LP	17,223,210	2,571,423	14.9%
Crown Capital Fund IV, LP	115,649,059	15,028,907	13.0%

6. REDEEMABLE UNITS

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

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

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

The number of units issued and outstanding for the period ended December 31, 2017 was as follows:

Period ended December 31, 2017	Balance, Beginning of Period	Units Issued Including Transfers from Other Series	Units Redeemed Including Transfers to Other Series	Balance, End of Period
Class A	1	-	-	1
Class B	742,379	302,618	-	1,044,997

The number of units issued and outstanding for the period ended December 31, 2016 was as follows:

Period ended December 31, 2016	Balance, Beginning of Period	Units Issued Including Transfers from Other Series	Units Redeemed Including Transfers to Other Series	Balance, End of Period
Class A	1	-	-	1
Class B	322,558	421,153	1,332	742,379

7. TAXATION

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

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

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

8. FEES AND EXPENSES

The Partnership is responsible for the payment of the following ongoing fees and expenses relating to its operation: custodian fees, administration fees, accounting expenses, audit fees, interest and safekeeping charges, all taxes (including GST and HST, if any), assessments or other regulatory and governmental charges levied against the Partnership, interest and all brokerage fees. The Manager may absorb future Partnership operating expenses at its discretion but is under no obligation to do so. In accordance with its offering documents, organization expenses in the amount of $18,202 (excluding applicable taxes, such as HST), which include legal and registration fees associated with the formation of the Partnership, are recoverable by the Manager from the Partnership. The Partnership is required to re-pay the Manager over five years commencing in 2014. A decision was made by the Manager to waive the chargeable amounts for 2014 and the first 3 months of 2015. Organization expenses charged to the Partnership for the period ended December 31, 2017 were $4,114 (December 31, 2016: $4,114), including applicable taxes, and were included in the line 'organization expenses' on the statements of comprehensive income.

9. BORROWING FACILITY

Settlement Services Agreement

The Partnership has a Settlement Services Agreement (SSA) with a Canadian dealer for margin borrowing. The rate of interest payable on borrowed money in Canadian dollars is the Canadian Dealer Offered Rate plus 0.50% and in U.S. dollars is the LIBOR plus 0.50% and the facility is repayable on demand. The Partnership has placed securities on account with the dealer as collateral for borrowing.

Based on the amount borrowed, the required amount of non-cash collateral has been classified separately within the statements of financial position from other assets and is identified as 'investments - pledged as collateral'.

As at December 31, 2017, the Partnership was borrowing $3,637,969 (December 31, 2016: $2,209,735). During the period ended December 31, 2017, the Partnership borrowed a minimum of $nil and a maximum of $5,814,303 (December 31, 2016: minimum of nil and maximum of $1,088,549) under the SSA.

Revolving Loan Facility

During the period ended December 31, 2017, the Partnership entered into a revolving loan facility (Facility) with a Bermuda-based bank (Bank). Under the Facility, the Partnership may borrow at any time in order to bridge the timing difference between planned subscriptions from unitholders and the commitments/disbursements to/from investments made by the Partnership. Under the Facility's terms, the Partnership has agreed to pay on demand to the Bank the principal sum of up to U.S. $6,000,000 and to pay interest on unpaid principal, calculated from and including the date of first drawdown at a rate which is the greater of 4.32% above the U.S.$ 3 month LIBOR or 5.5% net of any applicable withholding taxes, payable over 364 days from the date of first drawdown at interest only quarterly with principal payments at the Partnership's election subject to the term if not renewed. The term of the Facility is 364 days from the first drawdown, which was made on July 18, 2017. In the event that the Facility becomes 90 days overdue, the Bank may increase the rate of interest to 2% over the interest rate being charged at that time.

A non-utilization fee is payable quarterly in arrears of between zero and 0.35% per annum, depending on the quarterly average amount of the Facility that is undrawn. Payments of principal can be made at any time without penalty. The terms of the Facility include that the maximum total debt of the Partnership does not exceed 25% of total assets and that the Facility amount drawn does not exceed 20% of the Partnership's assets less those securities the Partnership has placed on account with the dealer of the SSA as collateral for the margin borrowing mentioned above.

The Partnership paid loan origination fees of U.S. $19,800 to the lender when it entered into the Facility.

As at December 31, 2017, the Partnership was borrowing U.S. $4,700,000. During the period ended December 31, 2017, the Partnership borrowed a minimum of U.S. $nil and a maximum of U.S. $4,700,000 under the Facility. Interest expense charged to the Partnership under the facility was U.S. $24,878.

10. SOFT DOLLARS

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

The Manager may use third party research, which is generally also available on a subscription basis, the value of which will be used to approximate the value of research and other similar services received from third parties through commission sharing arrangements with executing brokers. The ascertainable value of the third party soft dollar arrangements in connection with portfolio transactions for the period ended December 31, 2017 was $963 (December 31, 2016: $507).

11. RELATED PARTY TRANSACTIONS

The following table outlines the management fees, service fees and operating expense reimbursements that were paid to the Manager by the Partnership during the periods ended December 31, 2017 and December 31, 2016. The table includes the amount of operating expense reimbursement that was paid to affiliates of the Manager for administrative services provided in managing the day-to-day operation of the Partnership. All of the dollar amounts in the table below exclude applicable GST or HST.

Period ended	Operating Expense Reimbursement ($)	Organization Expense Reimbursement ($)	Organization Expense Reimbursement to affiliates of the Manager ($)
December 31, 2017	81,010	3,640	75
December 31, 2016	104,355	3,640	-

The Partnership owed the following amounts to the Manager:

Period ended	Operating Expense Reimbursement ($)	Organization Expense Reimbursement ($)
December 31, 2017	6,091	303
December 31, 2016	26,251	910

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

On December 13, 2017, an affiliate of the Manager acquired indirect controlling interest in a Bermuda-Based bank. The Partnership has a revolving loan facility with the bank as outlined in note 9.

12. COMMITMENTS

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

As at December 31, 2017 the cumulative amount paid toward this commitment was $27,364,200 and the remaining capital commitment was $6,385,800.

On June 1, 2017, the Partnership committed to invest U.S. $5,000,000 to Blue Ocean. As at December 31, 2017, U.S. $3,815,221 was paid toward this commitment, resulting in a remaining commitment of U.S. $1,184,779.

13. EXEMPTION FROM FILING

The Partnership is relying on the exemption obtained in National Instrument 81-106, Part 2.11 not to file its financial statements with the Ontario Securities Commission.

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