Healthcare Special Opportunities Fund

Financial Statements

December 31, 2017

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Healthcare Special Opportunities Fund (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years then ended, and 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 audits. We conducted our audits 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 the auditors' 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, the auditors consider internal control relevant to the Fund'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 Fund'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 in our audits 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 the Fund as at December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 8, 2018

Healthcare Special Opportunities Fund
Statements of Financial Position
As at December 31,

		2017		2016
Assets				
Current assets				
Financial assets at fair value through profit or loss (note 3)	**$**	**40,660,436**	$	60,452,198
Cash		**3,370,123**		7,532,931
Accrued dividends		**79,648**		65,883
Accrued interest		**460**		246
Receivable for investments sold		**192,559**		-
Total assets		**44,303,226**		68,051,258
Liabilities				
Current liabilities				
Performance fees		**718,902**		-
Accrued expenses		**114,209**		113,455
Management fees payable		**33,884**		51,269
Total liabilities (excluding Net Assets attributable to holders of redeemable units)		**866,995**		164,724
Net Assets attributable to holders of redeemable units (note 4)	**$**	**43,436,231**	$	67,886,534
Net Assets attributable to holders of redeemable units per class				
Class A	**$**	**42,578,398**	$	56,975,850
Class U	**$**	**857,833**	$	10,910,684
Net Assets attributable to holders of redeemable units per class per unit (note 4)				
Class A	**$**	**10.69**	$	9.16
Class U	**$**	**13.86**	$	11.90

Approved on behalf of LDIC Inc., as manager of the Healthcare Special Opportunities Fund.

/s/ Michael B. Decter — Michael B. Decter, Director

/s/ Ron Bailey — Ron Bailey, Director

Healthcare Special Opportunities Fund
Statements of Comprehensive Income
For the years ended December 31,

	2017	2016
Net gain (loss) on financial instruments		
Dividend income	**$ 983,415**	$ 1,183,466
Interest for distribution purposes	**23,338**	1,979
Foreign exchange gain (loss)	**(1,505,932)**	(315,143)
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss		
Net realized gain (loss) on sale of investments	**5,348,641**	(1,239,821)
Change in unrealized appreciation (depreciation) in value of investments	**4,976,152**	4,775,937
Change in unrealized appreciation (depreciation) in value of foreign exchange from currency	**(76,445)**	19,099
Net gain (loss) on financial instruments	**9,749,169**	4,425,517
Expenses (note 5)		
Performance fees	**718,902**	19,476
Management fees	**804,802**	872,405
Custodian fees	**9,518**	8,950
Audit fees	**14,621**	23,772
Legal fees	**39,677**	21,967
Valuation fees	**27,309**	29,841
Independent review committee fees	**3,303**	3,338
Transaction costs (note 7)	**157,218**	185,861
Filing fees	**20,221**	25,497
Securityholder reporting costs	**36,593**	28,565
Other expenses	**27,857**	64,972
Total operating expenses	**1,860,021**	1,284,644
Operating profit (loss)	**7,889,148**	3,140,873
Withholding taxes (note 6)	**(106,132)**	(168,611)
Increase (decrease) in Net Assets attributable to holders of redeemable units from operations (excluding distributions)	**$ 7,783,016**	$ 2,972,262
Increase (decrease) in Net Assets attributable to holders of redeemable units per class from operations (excluding distributions)		
Class A	**$ 7,250,831**	$ 2,472,411
Class U	**$ 532,185**	$ 499,851
Average number of units outstanding for the year per class		
Class A	**5,291,440**	6,128,700
Class U	**556,738**	995,669
Increase (decrease) in Net Assets attributable to holders of redeemable units per unit from operations (excluding distributions)		
Class A	**$ 1.37**	$ 0.40
Class U	**$ 0.96**	$ 0.50

Healthcare Special Opportunities Fund

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

For the years ended December 31,

	2017	2016	2017	2016
	Class A		**Class U**	
Net Assets attributable to holders of redeemable units at beginning of year	**$ 56,975,850**	$ 53,360,987	**$ 10,910,684**	$ 11,716,611
Increase (decrease) in Net Assets attributable to holders of redeemable units from operations (excluding distributions)	**7,250,831**	2,472,411	**532,185**	499,851
Redeemable unit transactions				
Redemption of redeemable units	**(21,329,572)**	(116,498)	**(10,402,563)**	(44,889)
Class U redeemable units converted into Class A redeemable units	**174,727**	1,260,592	**(174,727)**	(1,260,592)
Normal course issuer bid Class A units repurchased and cancelled	**(107,433)**	-	**-**	-
Issuance costs	**-**	(1,642)	-	(297)
	(21,262,278)	1,142,452	**(10,577,290)**	(1,305,778)
Distributions to holders of redeemable units				
Return of capital	**(386,005)**	-	**(7,746)**	-
	(386,005)	-	**(7,746)**	-
Net increase (decrease) in Net Assets attributable to holders of redeemable units	**(14,397,452)**	3,614,863	**(10,052,851)**	(805,927)
Net Assets attributable to holders of redeemable units at end of year	**$ 42,578,398**	$ 56,975,850	**$ 857,833**	$ 10,910,684

	2017	2016
	Total	
Net Assets attributable to holders of redeemable units at beginning of year	**$ 67,886,534**	$ 65,077,598
Increase (decrease) in Net Assets attributable to holders of redeemable units from operations (excluding distributions)	**7,783,016**	2,972,262
Redeemable unit transactions		
Redemption of redeemable units	**(31,732,135)**	(161,387)
Normal course issuer bid Class A units repurchased and cancelled	**(107,433)**	-
Issuance costs	-	(1,939)
	(31,839,568)	(163,326)
Distributions to holders of redeemable units		
Return of capital	**(393,751)**	-
	(393,751)	-
Net increase (decrease) in Net Assets attributable to holders of redeemable units	**(24,450,303)**	2,808,936
Net Assets attributable to holders of redeemable units at end of year	**$ 43,436,231**	$ 67,886,534

Healthcare Special Opportunities Fund

Statements of Cash Flows

For the years ended December 31,

		2017		2016
Cash flows from (used in) operating activities				
Increase (decrease) in Net Assets attributable to holders of redeemable units from operations (excluding distributions)	**$**	**7,783,016**	$	2,972,262
Adjustments for:				
Foreign exchange (gain) loss		**1,505,932**		315,143
Net realized (gain) loss on sale of investments		**(5,348,641)**		1,239,821
Change in unrealized (appreciation) depreciation in value of investments		**(4,976,152)**		(4,775,937)
Purchases of investments		**(43,021,193)**		(41,993,072)
Proceeds from sale of investments		**72,945,189**		49,420,991
Accrued dividends		**(13,765)**		(15,695)
Accrued interest		**(214)**		(246)
Performance fees		**718,902**		-
Accrued expenses		**754**		78,073
Management fees payable		**(17,385)**		(22,477)
Net cash from (used in) operating activities		**29,576,443**		7,218,863
Cash flows from (used in) financing activities				
Distributions paid to holders of redeemable units, net of reinvested distributions		**(393,751)**		-
Issuance costs		**-**		(1,939)
Redemption of redeemable units		**(31,732,135)**		(161,387)
Normal course issuer bid Class A units repurchased and cancelled		**(107,433)**		-
Net cash from (used in) financing activities		**(32,233,319)**		(163,326)
Foreign exchange gain (loss)		**(1,505,932)**		(315,143)
Net increase (decrease) in cash		**(2,656,876)**		7,055,537
Cash at beginning of year		**7,532,931**		792,537
Cash at end of year	**$**	**3,370,123**	$	7,532,931
Supplemental Cash Flow Information:				
Dividends received, net of withholding taxes	**$**	**863,518**	$	999,160
Interest received		**23,124**		1,733

The accompanying notes are an integral part of these financial statements

Healthcare Special Opportunities Fund
Schedule of Investment Portfolio
As at December 31, 2017

Par Value/ Number of Shares	Description	Maturity Date /Expiry Date	Coupon Rate	Average Cost ($)	Fair Value ($)	% of Net Assets
	Bonds - Canada					
	Corporate Bonds					
150,000	2576560 Ontario Inc.	December 13, 2019	8.000%	150,000	150,000	
	Total Bonds			150,000	150,000	0.3
	Equities - Canada					
	Consumer Discretionary					
90,909	Delivra Corp. Warrants	February 15, 2018		-	-	
20,000	Delivra Corp., Warrants	March 15, 2018		-	-	
36,300	Park Lawn Corp.			676,041	829,455	
				676,041	829,455	1.9
	Consumer Staples					
186,100	GreenSpace Brands Inc.			199,833	262,401	
250,000	GreenSpace Brands Inc., Warrants	February 22, 2019		54,990	85,000	
1,666,600	Sweet Natural Trading Co.			199,992	166,660	
				454,815	514,061	1.2
	Health Care					
37,500	2576560 Ontario Inc., Warrants	December 13, 2020		-	-	
1,170,215	Akumin Inc.			3,237,727	6,920,532	
208,000	Canopy Health Innovations			398,000	728,000	
425,000	Grey Wolf Animal Health Inc.			425,000	425,000	
3,689,000	H-Source Holdings Ltd.			605,636	479,570	
665,000	Luminor Medical Technologies Inc			99,750	259,350	
332,500	Luminor Medical Technologies Inc., Warrants	September 27, 2019		-	46,550	
106,500	MedReleaf Corp.			1,089,716	2,262,060	
700,000	Microbix Biosystems Inc.			210,000	213,500	
350,000	Microbix Biosystems Inc., Warrants	October 18, 2020		-	-	
145,000	TRC Management Holdings Corp.			507,500	507,500	
				6,573,329	11,842,062	27.3
	Industrials					
55,100	Morneau Shepell Inc.			1,169,545	1,228,730	
20,000	Savaria Corp.			362,302	364,400	
				1,531,847	1,593,130	3.7
	Information Technology					
149,000	Reliq Health Technologies Inc.			114,285	192,210	
35,700	TECSYS Inc.			345,981	599,046	
				460,266	791,256	1.8
	Materials					
1,000,000	Good Natured Products Inc., Warrants	December 21, 2018		-	1	-
				-	1	-

Healthcare Special Opportunities Fund
Schedule of Investment Portfolio
As at December 31, 2017

Number of Shares	Description	Average Cost ($)	Fair Value ($)	% of Net Assets
	Equities - United States			
	Health Care			
16,500	Aetna Inc.	3,419,551	3,729,308	
11,500	Becton Dickinson and Co.	2,440,367	3,084,361	
10,600	Centene Corp.	1,246,545	1,339,809	
17,900	Johnson & Johnson	2,387,703	3,133,599	
19,643	Medtronic PLC	1,980,374	1,987,386	
13,900	Pfizer Inc.	630,280	630,805	
537,154	R1 RCM Inc.	2,121,442	2,968,036	
14,810	Stryker Corp.	2,016,092	2,873,228	
14,500	UnitedHealth Group Inc.	2,529,851	4,005,250	
		18,772,205	23,751,782	54.7
	Real Estate			
16,000	Healthcare Trust of America Inc.	641,770	602,213	
7,800	Ventas Inc.	638,924	586,476	
		1,280,694	1,188,689	2.7
	Total Equities	29,749,197	40,510,436	93.3
	Transaction costs	(26,119)		
	Total Investments	29,873,078	40,660,436	93.6
	Other Assets, Less Liabilities		2,775,795	6.4
	Net Assets Attributable to Holders of Redeemable Units		$ 43,436,231	100.0

1. GENERAL INFORMATION

The Healthcare Special Opportunities Fund (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario on June 26, 2015. LDIC Inc. (the "Manager") is the Trustee and Manager of the Fund. The Fund was listed on the Toronto Stock Exchange ("TSX") and commenced operations on July 15, 2015 when it first issued units through an initial public offering. The address of the Fund's registered office is LDIC Inc., 130 King Street West, Suite 2130, Toronto, Ontario. These financial statements were authorized for issue by the Manager on March 6, 2018.

The investment objective of the Fund is principally set up to provide holders of units with long-term total return through distributions and capital appreciation of the Fund's investment portfolio by investing in equity and debt securities of issuers that derive a significant portion of their revenue or earnings from medical and healthcare products and/or services.

2. BASIS OF PRESENTATION

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

The policies applied in these financial statements are based on IFRS standards issued and outstanding as of March 6, 2018, which is the date on which the annual financial statements were authorized for issue by the Manager.

In the preparation of these financial statements, management has made judgments, estimates and assumptions that affect the application of the Fund's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

These financial statements have been presented in Canadian dollars, which is the Fund's functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

The Fund's functional and presentation currency is the Canadian dollar. Foreign currency purchases and sales of investments and foreign currency dividend and interest income and expenses are translated into Canadian dollars at the rate of exchange prevailing at the date of the transactions.

Foreign exchange gains (losses) on purchases and sales of foreign currencies are included in the Statements of Comprehensive Income – Foreign exchange gain (loss).

The fair values of investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the Statement of Financial Position date.

(b) Financial instruments

The Fund classifies its investments in debt and equity securities, or financial assets or liabilities at fair value through profit or loss ("FVTPL"). There are two sub-categories: financial assets or financial liabilities held for trading and those designated at FVTPL at inception. The Fund's investments in equity securities are designated at FVTPL at inception. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amounts required to be received or paid, discounted when appropriate, at the financial instrument's effective interest rate. The fair values of the Fund's financial assets and liabilities that are not carried at FVTPL approximate their carrying amounts due to their short-term nature.

Financial instruments classified as held for trading: Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term, and are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

Financial instruments designated as FVTPL at inception: All investments held by the Fund are designated as FVTPL upon initial recognition. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund, as set out in the Fund's prospectus.

(c) Fair value measurements

Financial instruments are valued at their fair value, which is defined as 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 is 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.

The Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

A valuation hierarchy table has been included in Note 10, Fair Value Disclosure.

(d) Cash

Cash comprises of deposits held at financial institutions.

(e) Multi-class allocation

Expenses, realized and unrealized gains/losses and income generally are allocated among the classes on a pro-rata basis.

Class-specific management fees are not allocated and do not require allocation.

(f) Transaction costs

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities, are expensed and are included in "Transaction costs" in the Statements of Comprehensive Income.

(g) Investment transactions

Investment transactions are accounted for on the trade date. All income, net realized gains (losses), unrealized appreciation (depreciation) in the value of investments and transaction costs are attributable to investments that are deemed held for trading.

(h) Revenue recognition

- The interest for distribution purposes shown on the Statements of Comprehensive Income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed-income securities, except for zero coupon bonds, which are amortized on a straight-line basis.

- Dividend income is recorded on the ex-dividend date and is gross of withholding taxes.
- Realized gains and losses on investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments.

(i) Increase (decrease) in Net Assets attributable to holders of redeemable units per unit

The increase (decrease) in Net Assets attributable to holders of redeemable units per unit in the Statements of Comprehensive Income represents the net increase (decrease) in Net Assets attributable to holders of redeemable units per unit, divided by the weighted average number of units outstanding during the period of that class of units.

(j) Accounting standards issued but not yet adopted

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after January 1, 2018, with early application permitted. IFRS 9 brings together three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Fund will adopt IFRS 9 for annual periods beginning January 1, 2018. Based on the Fund's business model and contractual cash flow characteristics, the Manager anticipates that all portfolio investments will continue to be measured at fair value. As the Fund does not apply hedge accounting and primarily all financial instruments are measured at fair value, the Manager expects no significant impact on the Fund's net assets and results of operations on adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a five-step model to account for revenue arising from contracts with customers and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Given that primarily all of the revenue streams of the Fund falls outside of the scope of IFRS 15, the Manager has assessed that there is minimal impact to the financial statements arising on the adoption of this standard.

(k) Critical accounting estimates and judgments

- Fair value measurements of financial instruments not quoted in an active market

  The Fund may hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market markers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. When no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally, recognized as standard within the industry.

- Classification and measurement of financial instruments and application of fair value option

  In classifying and measuring financial instruments held by the Fund, the Manager is required to make judgments about the classification of financial instruments and the applicability of the fair value option to its investments that are not held for trading. The fair value option has been applied to the Fund's investments in equity securities as the investments are managed on a fair value basis in accordance with the Fund's investment strategy.

4. UNITS OF THE FUND

The Fund is authorized to issue an unlimited number of units of each class. The Class A units are denominated in Canadian dollars, and the Class U units are denominated in U.S. dollars. The Class U units will not be listed on a stock exchange, but are convertible into Class A units on a weekly basis for liquidity. It is expected that liquidity for the Class U units will be obtained primarily by means of conversion into Class A units and the sale of such Class A units on a stock exchange.

Units may be redeemed at the option of unitholders by tendering units of the Fund by the second last business day of July for redemptions ("Annual Redemption Date") commencing in 2017. Units must be properly surrendered for redemption at least 30 days prior to an Annual Redemption Date in each year. Unitholders whose units are redeemed on the Annual Redemption Date will receive a redemption price per unit equal to 100% of the Net Asset Value ("NAV") per unit of the applicable class on an Annual Redemption Date (less any costs associated with the redemption including brokerage costs).

In addition to the annual redemption right, Unitholders may surrender units at any time for redemption on the second last Business Day (a "Business Day" being a day other than a Saturday, Sunday or statutory holiday in Toronto, Ontario or any other day the TSX is not open for trading) in a month (a "Monthly Redemption Date"), subject to certain conditions. Unitholders surrendering a Class A unit for redemption on a Monthly Redemption Date will receive a redemption price equal to the lesser of (a) 95% of the "weighted average trading price" of the Class A units on the principal market on which the Class A units are quoted for trading, the TSX, during the 15 trading days preceding the applicable Monthly Redemption Date; and (b) the "closing market price" of the Class A units on the principal market on which the Class A units are quoted for trading on the applicable Monthly Redemption Date (the "Monthly Redemption Amount" less, in each case, any costs associated with the redemption, including brokerage costs). Unitholders surrendering a Class U unit for redemption on a Monthly Redemption Date will receive in U.S. dollars an amount equal to the U.S. dollar equivalent of the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated NAV per unit of a Class U unit and the denominator of which is the most recently calculated NAV per unit of a Class A unit, less any costs associated with the redemption, including brokerage costs.

On June 22, 2017, the Fund announced a normal course issuer bid ("NCIB") to repurchase its Class A units. The Fund is authorized to repurchase up to 623,418 Class A units, representing approximately 10% of the public float. The Fund will not purchase in any given 30-day period, in the aggregate, more than 124,684 Class A units, being 2% of the issued and outstanding Class A units as of the date hereof. Purchase of Class A units under the NCIB commenced on July 28, 2017. All Class A units purchased by the Fund pursuant to the NCIB will be cancelled. The NCIB will expire on July 27, 2018.

During the year ended December 31, 2017, 11,500 Class A units were purchased for cancellation under the above NCIB.

Issued

During the year, unit transactions of the Fund were as follows:

	2017	
	Number of Class A Units	**Number of Class U Units**
Units outstanding at January 1, 2017	**6,217,302**	**916,757**
Normal course issuer bid Class A units repurchased and cancelled	**(11,500)**	**-**
Class U redeemable units converted to Class A redeemable units	**17,659**	**(13,600)**
Redemption of redeemable units	**(2,241,004)**	**(841,257)**
Units outstanding at December 31, 2017	**3,982,457**	**61,900**

	2016	
	Number of Class A Units	Number of Class U Units
Units, outstanding at January 1, 2016	6,091,181	1,029,757
Issuance of redeemable units	(14,798)	(4,500)
Class U redeemable units converted to Class A redeemable units	140,919	(108,500)
Units, outstanding at December 31, 2016	6,217,302	916,757

On December 31, 2017, the Fund's closing market price was $10.26 per Class A unit (2016 - $8.69 per Class A unit).

5. RELATED PARTY TRANSACTIONS

As at December 31, 2017, the Manager of the Fund and certain Directors and Officers of the Manager held a total of 294,328 (2016 - 294,328) Class A units of the Fund.

Management fees, performance fees and operating expenses

The Manager provides investment and administrative services to the Fund. In consideration for these services, the Manager receives a 1.25% fee per annum based on a percentage of the Net Assets of the Fund calculated daily and payable monthly.

The Manager is entitled be paid a performance fee (the "Performance Fee") from the Fund in respect of investments in the private equity investments (the "Private Portfolio")including, for the purpose of calculating the Performance Fee, securities of private issuers in the Private Portfolio that have become publicly traded and public securities received on the disposition of securities of a private issuer in the Private Portfolio. The amount of the Performance Fee shall be determined as of the date of disposition (the "Determination Date") for cash proceeds of each such investment.

The Performance Fee in respect of each investment will be equal to 20% of the amount by which the cash proceeds of disposition exceed 106% of the Threshold Amount (as defined below) calculated on a cumulative annual basis plus applicable taxes.

The Performance Fee shall be calculated and accrue daily and be paid upon each Determination Date; however, no Performance Fee shall be paid in respect of any dispositions of securities of private issuers in the Private Portfolio unless on the Determination Date the proceeds of disposition of the investment exceed 107% of the original book value of the investment (the "Threshold Amount").

The Fund is responsible for the payment of all expenses relating to its operations and the carrying on of its business. These expenses include, but are not limited to, administration and accounting costs, the costs of any back-office service provider retained by the Manager, transaction costs, audit and legal fees, custodian fees, the costs of preparing and distributing annual and semi-annual financial statements, unitholder reports and investor communications. At certain times, the Manager may pay a portion of the expenses otherwise payable by the Fund.

6. TAXATION OF THE FUND AND ALLOCATION TO UNITHOLDERS

The Fund qualifies as a mutual fund trust as defined in the *Income Tax Act* (Canada) (the “Act”). Pursuant to the terms of the Declaration of Trust, the Fund pays or makes payable in the calendar year to the unitholders all the net income and such portion of the net capital gains that will result in the Fund paying no tax under the current provisions of the Act. As a result, under existing tax legislation, the net income and net capital gains are taxable in the hands of the unitholders of the Fund. Accordingly, no provision for Canadian income taxes has been made in these financial statements.

The Fund currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown separately in the Statements of Comprehensive Income.

The Fund has accumulated capital loss carryforwards as of December 31, 2017 of $7,119,695 (2016 - $7,119,695), which may be applied against future years’ capital gains and can be carried forward indefinitely. As of December 31, 2017, there was a $525,015 (2016 - $525,015) in non-capital losses available in the Fund, which can be carried forward until 2036.

7. TRANSACTION COSTS

Commissions and other transaction fees paid for portfolio transactions for the year ended December 31, 2017 were $157,218 (2016 - $185,861).

8. SOFT DOLLAR COMMISSIONS

In addition to covering brokerage services on security transactions, commissions paid to certain brokers may also cover research services provided to the Manager. The value of the research services included in the commissions paid by the Fund to those brokers for the years ended December 31, 2017 and 2016 was $46,160 and nil, respectively.

9. FINANCIAL RISK MANAGEMENT

In the normal course of operations, the Fund’s activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (which includes interest rate risk, currency risk, other price risk and concentration risk). The value of investments in a Fund’s portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions and market news related to specific securities in the portfolio. The level of risk depends on the Fund’s objectives and the type of securities that it holds. In order to mitigate risk, depending on conditions, the Manager diversifies the portfolio based on criteria such as asset class, country, industry and currency. Significant risks that are relevant to the Fund are discussed below. “Net Assets” below is defined as Net Assets attributable to unitholders.

(a) Credit risk

Credit risk represents the potential loss that the Fund would incur if counterparties failed to perform in accordance with the terms of their obligations to the Fund. The Manager only trades with approved counterparties and monitors reporting that includes approved counterparty listings, trade volumes and exposure reports. The risk of default is considered minimal, as delivery of securities sold is only made once the Fund has received payment. Payment is made on a purchase once the securities have been received by the Fund. The trade will fail if either party fails to meet its obligation. The Fund maintains all of its cash and cash equivalents at the custodian or in overnight deposits with approved counterparties and ensures that appropriate collateral is received.

As at December 31, 2017 and 2016, the Fund had directly invested in debt instruments with the following Standard & Poor’s credit ratings:

	As a % of Net Assets	
Portfolio by rating category	**December 31, 2017**	December 31, 2016
NR	**0.3%**	0.1%

(b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations associated with its financial liabilities. The Fund's primary exposure to liquidity risk relates to its unitholders' rights to redeem their units on any valuation date. Liquidity risk is managed by retaining sufficient cash and cash equivalent positions and investing the majority of the Fund's assets in portfolio investments that are traded in an active market and can be readily disposed of. There can be no assurance that an active trading market for the investments will exist at all times, or that the prices at which the securities trade accurately reflect their values.

Thin trading in a security could make it difficult to liquidate holdings quickly. The Manager considers market depth and the relationship between liquidity and size of the position as part of the criteria for approval of a new investment and in its periodic re-evaluation of the investment.

(c) Market risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund's activities may expose it to different types of market risk including currency risk, interest rate risk, other price risk and concentration risk.

(i) 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. Interest rate risk arises on interest-bearing financial instruments.

As at December 31, 2017 and 2016, the Fund's direct exposure to debt instruments by maturity was as follows:

		Less than 1 year ($)	1 - 5 years ($)	More than 5 years ($)	Total ($)
Interest rate exposure	**2017**	**-**	**150,000**	**-**	**150,000**
	2016	-	100,000	-	100,000

As at December 31, 2017, should interest rates have decreased or increased by 0.25% with all other variables remaining constant, the increase or decrease in Net Assets for the year would amount to approximately $685 (2016 - $177). In practice, the actual trading results may differ, and the difference could be material.

(ii) Currency risk

Currency risk is the risk that the fair value of financial instruments denominated in currencies other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate because of changes in foreign exchange rates.

	December 31, 2017		December 31, 2016	
	Currency Exposure ($)	**Percentage of Net Assets (%)**	Currency Exposure ($)	Percentage of Net Assets (%)
U.S. dollar	**35,308,961**	**81.3**	50,159,879	73.9

As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies represented in the portfolio, with all other variables remaining constant, Net Assets would have decreased or increased by approximately $1,765,448 (2016 - $2,507,994). In practice, the actual results may differ and the difference could be material.

(iii) Other price risk

Other price risk represents the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment.

The Fund is exposed to other price risk from investments in equities. As at December 31, 2017, approximately 93.3% (2016 - 88.9%) of the Fund's Net Assets were held directly in equities. If equity prices on the exchanges increased or decreased by 5% as at December 31, 2017, the Net Assets of the Fund would have increased or decreased by approximately $2,025,522, or 4.7% (2016 - $3,017,610, or 4.4%) with all other factors remaining constant. In practice, the actual results may differ and the difference could be material.

(iv) Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

Investment Sector	**December 31, 2017**	December 31, 2016
Corporate Bonds	**0.3%**	0.1%
Consumer Discretionary	**1.9%**	1.4%
Consumer Staples	**1.2%**	7.4%
Financials	**-**	14.7%
Health Care	**82.0%**	57.3%
Industrials	**3.7%**	2.0%
Information Technology	**1.8%**	5.8%
Materials	**-**	0.3%
Real Estate	**2.7%**	-
Net Other Assets/Liabilities	**6.4%**	11.0%
Total	**100.0%**	100.0%

10. FAIR VALUE DISCLOSURE

The following tables illustrate the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2017 and 2016:

	Financial Assets at Fair Value as at December 31, 2017			
	Level 1 ($)	**Level 2 ($)**	**Level 3 ($)**	**Total ($)**
Equities	**38,245,535**	**472,850**	**1,660,500**	**40,378,885**
Warrants	**85,000**	**46,551**	**-**	**131,551**
Bonds	**-**	**-**	**150,000**	**150,000**
	38,330,535	**519,401**	**1,810,500**	**40,660,436**

	Financial Assets at Fair Value as at December 31, 2016			
	Level 1 ($)	Level 2 ($)	Level 3 ($)	Total ($)
Equities	58,170,034	986,279	1,052,135	60,208,448
Warrants	81,250	62,500	-	143,750
Bonds	-	-	100,000	100,000
	58,251,284	1,048,779	1,152,135	60,452,198

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used to determine their fair value:

	Bonds	Equities
Balance as at December 31, 2016	**$ 100,000**	**$ 1,052,135**
Purchases	**150,000**	**3,136,522**
Sales	**(100,000)**	**-**
Net transfers in (out)	**-**	**(2,812,727)**
Realized gains (losses)	**-**	**-**
Change in unrealized appreciation (depreciation) on investments	**-**	**284,570**
Balance as at December 31, 2017	**$ 150,000**	**$ 1,660,500**
Net change in unrealized appreciation from investments as at December 31, 2017	**$ -**	**$ 330,000**

	Bonds	Equities
Balance as at December 31, 2015	$ -	$ 202,500
Purchases	100,000	1,006,705
Sales	-	(202,500)
Net transfers in (out)	-	-
Realized gains (losses)	-	-
Change in unrealized appreciation (depreciation) on investments	-	45,430
Balance as at December 31, 2016	$ 100,000	$ 1,052,135
Net change in unrealized appreciation from investments as at December 31, 2016	$ -	$ 45,430

The Fund Manager of the Fund is responsible for performing the valuation of the fair value measurements included in the financial statements, including the level 3 fair values. As at December 31, 2017, the fair values of level 3 securities held by the Fund were comprised of the following securities and the unobservable inputs used in the fair value measurement of these investments were:

Investment Name	Fair Value ($)	Valuation Technique	Unobservable inputs
2576560 Ontario Inc.	150,000	Amortized Cost	N/A
Canopy Health Innovations	728,000	Recent Transactions	N/A
Grey Wolf Animal Health Inc.	425,000	Recent Transactions	N/A
TRC Management Holdings Corp.	507,500	Recent Transactions	N/A
Total	1,810,500		

There is no significant sensitivity impact related to the fair value of level 3 securities.

11. CAPITAL MANAGEMENT

The Fund's investment objective is principally set up to provide unitholders with long-term total return by investing in equity and debt securities of issuers that derive a significant portion of their revenue or earnings from medical and healthcare products and/or services.

The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders, maximize unitholder value and maintain financial strength.The capital of the Fund is divided into two classes, Class A and Class U. The units issued and outstanding represent the capital of the Fund, and shareholders are entitled to distributions when declared.

The Fund manages its capital in accordance with the investment objectives and strategies and the risk management practices outlined in Note 9, Financial Risk Management. The Manager actively monitors the cash position and financial performance to ensure sufficient liquidity to meet operating expenses, distributions, and redemptions.