

# Purpose

INVESTMENTS



**AUDITED ANNUAL FINANCIAL STATEMENTS**  
For the financial period ended December 31, 2019



## INDEPENDENT AUDITOR'S REPORT

**TO THE UNITHOLDERS OF PURPOSE HIGH INTEREST SAVINGS ETF, PURPOSE US CASH ETF, PURPOSE MONEY MARKET FUND, PURPOSE GLOBAL BOND FUND, PURPOSE STRATEGIC YIELD FUND, PURPOSE CANADIAN PREFERRED SHARE FUND, PURPOSE US PREFERRED SHARE FUND, PURPOSE FLOATING RATE INCOME FUND, PURPOSE US DIVIDEND FUND, PURPOSE INTERNATIONAL DIVIDEND FUND, PURPOSE EMERGING MARKETS DIVIDEND FUND, PURPOSE MARIJUANA OPPORTUNITIES FUND, PURPOSE MULTI-ASSET INCOME FUND, PURPOSE MULTI-STRATEGY MARKET NEUTRAL FUND, PURPOSE CREDIT OPPORTUNITIES FUND, PURPOSE GOLD BULLION FUND AND PURPOSE SILVER BULLION FUND (COLLECTIVELY THE "FUNDS")**

### OPINION

We have audited the financial statements of the Funds, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in financial position and statements of cash flows for the periods then ended, as indicated in Note 1 to the accompanying financial statements, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Funds as at December 31, 2019 and 2018, and their financial performance and their cash flows for the periods then ended, as indicated in Note 1 to the accompanying financial statements, in accordance with International Financial Reporting Standards (IFRSs).

### BASIS FOR OPINION

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

### OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance of the Funds. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Funds' financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Fraser Whale.

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
March 27, 2020



## ANNUAL FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION  
(IN US DOLLARS)

As at:

|   | December 31,<br>2019<br>(\$) | December 31,<br>2018<br>(\$) |
|---|------------------------------|------------------------------|
| <b>Assets</b>   |                              |                              |
| Investments:  |                              |                              |
| Non-derivative investments  | 180,524,007                  | 88,360,723                   |
| Cash and cash equivalents   | 342,088                      | 164,072                      |
| Receivables:  |                              |                              |
| Interest  | 293,729                      | 22,700                       |
| Prepaid expenses  | 1,427                        | 1,955                        |
| <b>Total assets</b>   | <b>181,161,251</b>           | <b>88,549,450</b>            |
| <b>Liabilities</b>  |                              |                              |
| Payables:   |                              |                              |
| Management fees (note 5)  | 21,083                       | -                            |
| Independent review committee fees (note 5)                              | 15,779                       | 5,961                        |
| Distributions   | 264,945                      | 184,652                      |
| <b>Total liabilities</b>  | <b>301,807</b>               | <b>190,613</b>               |
| <b>Net assets attributable to holders of redeemable units</b>           | <b>180,859,444</b>           | <b>88,358,837</b>            |
| <b>Net assets attributable to holders of redeemable units per class</b> |                              |                              |
| ETF Unit  | 180,859,444                  | 88,358,837                   |
| <b>Number of units outstanding</b> (note 4)                             |                              |                              |
| ETF Unit  | 1,808,500                    | 883,500                      |
| <b>Net assets attributable to holders of redeemable units per unit</b>  |                              |                              |
| ETF Unit  | 100.01                       | 100.01                       |

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

Approved on behalf of the Board of Directors of Purpose Investments Inc.,  
as trustee and manager of Purpose US Cash ETFSom Seif  
Director  
March 27, 2020Jeff Bouganim  
DirectorSTATEMENTS OF COMPREHENSIVE INCOME  
(IN US DOLLARS)

For the years ended:

|   | December 31,<br>2019<br>(\$) | December 31,<br>2018<br>(\$) |
|---|------------------------------|------------------------------|
| <b>Income</b>   |                              |                              |
| Net gains (losses) on investments:  |                              |                              |
| Interest income for distribution purposes   | 3,308,974                    | 1,529,909                    |
| Net realized gain (loss) on foreign exchange transactions   | -                            | 9                            |
| Net gains (losses) on investments   | 3,308,974                    | 1,529,918                    |
| Foreign exchange gain (loss) on cash  | 25                           | (167)                        |
| <b>Total revenue</b>  | <b>3,308,999</b>             | <b>1,529,751</b>             |
| <b>Expenses</b>   |                              |                              |
| Management fees (note 5)  | 366,241                      | 192,200                      |
| Independent review committee fees (note 5)  | 17,038                       | 8,113                        |
| Transaction costs (note 9)  | -                            | 459                          |
| Other expenses (note 5)   | 8,072                        | -                            |
| Total expenses  | 391,351                      | 200,772                      |
| Expense waived/absorbed by the Manager (note 5)   | (138,867)                    | (81,120)                     |
| <b>Net expenses</b>   | <b>252,484</b>               | <b>119,652</b>               |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units</b>                    | <b>3,056,515</b>             | <b>1,410,099</b>             |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units per class</b> (note 8) |                              |                              |
| ETF Unit  | 3,056,515                    | 1,410,099                    |
| <b>Average number of units outstanding for the year per class</b> (note 8)                              |                              |                              |
| ETF Unit  | 1,389,938                    | 811,925                      |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units per unit</b> (note 8)  |                              |                              |
| ETF Unit  | 2.20                         | 1.73                         |

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

**STATEMENTS OF CHANGES IN FINANCIAL POSITION (IN US DOLLARS)**

For the years ended:

|   | December 31,<br>2019<br>(\$) | December 31,<br>2018<br>(\$) |
|---|------------------------------|------------------------------|
| <b>ETF Unit</b>   |                              |                              |
| Net assets attributable to holders of redeemable units at beginning of year       | 88,358,837                   | 40,852,129                   |
| Increase (decrease) in net assets attributable to holders of redeemable units     | 3,056,515                    | 1,410,099                    |
| <b>Redeemable unit transactions</b>   |                              |                              |
| Proceeds from issuance of redeemable units  | 265,195,152                  | 70,048,058                   |
| Payments for redemption of redeemable units                                       | (172,500,595)                | (22,523,752)                 |
| Net increase (decrease) from redeemable unit transactions                         | 92,694,557                   | 47,524,306                   |
| <b>Distributions paid or payable to unitholders of redeemable units</b>           |                              |                              |
| From investment income  | (3,079,831)                  | (1,404,938)                  |
| Return of capital   | (170,634)                    | (22,759)                     |
| Total distributions to holders of redeemable units                                | (3,250,465)                  | (1,427,697)                  |
| Net increase (decrease) in net assets attributable to holders of redeemable units | 92,500,607                   | 88,358,837                   |
| <b>Net assets attributable to holders of redeemable units at end of year</b>      | <b>180,859,444</b>           | <b>88,358,837</b>            |

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

**STATEMENTS OF CASH FLOWS (IN US DOLLARS)**

For the years ended:

|   | December 31,<br>2019<br>(\$) | December 31,<br>2018<br>(\$) |
|---|------------------------------|------------------------------|
| <b>Cash Flows from Operating Activities</b>                                   |                              |                              |
| Increase (decrease) in net assets attributable to holders of redeemable units | 3,056,515                    | 1,410,099                    |
| Adjustments for:  |                              |                              |
| Purchase of investments   | (253,512,892)                | (114,929,642)                |
| Proceeds of investments sold  | 161,349,608                  | 67,300,959                   |
| Foreign exchange loss (gain) on cash  | (25)                         | 167                          |
| Net change in non-cash working capital balances                               | (239,600)                    | (21,392)                     |
|   | (89,346,394)                 | (46,239,809)                 |
| <b>Cash Flows from Financing Activities</b>                                   |                              |                              |
| Proceeds from issuance of units   | 265,195,152                  | 70,048,058                   |
| Payments for units redeemed   | (172,500,595)                | (22,523,752)                 |
| Distribution to holders, net of reinvestments                                 | (3,170,172)                  | (1,278,380)                  |
|   | 89,524,385                   | 46,245,926                   |
| Foreign exchange gain (loss) on cash  | 25                           | (167)                        |
| Net increase (decrease) in cash and cash equivalents                          | 177,991                      | 6,117                        |
| Cash and cash equivalents, at beginning of year                               | 164,072                      | 158,122                      |
| <b>Cash and cash equivalents, at end of year</b>                              | <b>342,088</b>               | <b>164,072</b>               |
| Interest received   | 3,037,945                    | 1,511,028                    |

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

**SCHEDULE OF INVESTMENTS (IN US DOLLARS)**

As at December 31, 2019

| Investments                                   | Average cost<br>(\$) | Fair Value<br>(\$) |
|---|----------------------|--------------------|
| <b>Cash Equivalents – 99.81%</b>              |                      |                    |
| National Bank of Canada US Cash Account       | 90,130,020           | 90,130,020         |
| Scotiabank US Cash Account                    | 90,393,987           | 90,393,987         |
|   | 180,524,007          | 180,524,007        |
| <b>Total Cash Equivalents – 99.81%</b>        |                      |                    |
|   | 180,524,007          | 180,524,007        |
| <b>Total Investments – 99.81%</b>             |                      |                    |
|   | 180,524,007          | 180,524,007        |
| <b>Cash – 0.19%</b>                           |                      | 342,088            |
| <b>Other Assets, Less Liabilities – 0.00%</b> |                      | (6,651)            |
| <b>Net Assets – 100.00%</b>                   |                      | <b>180,859,444</b> |

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



## NOTES TO THE FINANCIAL STATEMENTS – SPECIFIC INFORMATION – PURPOSE US CASH ETF

### A) INVESTMENT OBJECTIVES (NOTE 2)

The Purpose US Cash ETF's investment objectives are to seek to maximize US dollar monthly income while preserving capital and liquidity by investing in high interest deposit accounts and high-quality money market securities denominated in US dollars.

### B) REDEEMABLE PARTICIPATING UNITS (NOTE 4)

Changes in outstanding units during the years ended December 31, 2019 and 2018 are summarized as follows:

|                                | Number of Units |
|--------------------------------|-----------------|
|                                | ETF Units       |
| Outstanding, December 30, 2017 | 408,500         |
| Issued                         | 700,000         |
| Redeemed                       | (225,000)       |
| Outstanding, December 31, 2018 | 883,500         |
| Issued                         | 2,650,000       |
| Redeemed                       | (1,725,000)     |
| Outstanding, December 31, 2019 | 1,808,500       |

### C) MANAGEMENT FEES, SERVICE FEES AND OTHER EXPENSES (NOTE 5)

Annual Management Fee  
(% of Net Asset Value of each unit)

| Class     | Management Fee |
|-----------|----------------|
| ETF Units | 0.20%          |

### D) FINANCIAL RISKS (NOTE 11)

#### *Interest rate risk*

The majority of the Fund's financial assets are bank deposits which are short term in nature and are not interest sensitive. As the Fund's financial liabilities are primarily short term in nature and generally not interest bearing, the Fund's exposure to interest rate risk is considered minimal.

#### *Credit risk*

The Fund is exposed to the credit risk that a bank with whom it has a deposit account will be unable to pay amounts in full when due. The value of investment balances as presented in the Schedule of Investments represents the maximum credit risk exposure of the Fund.

The Standard and Poor's credit ratings for the banks that the Fund has deposits with were as follows as at December 31, 2019:

|                         |     |
|-------------------------|-----|
| Scotiabank              | A-1 |
| National Bank of Canada | A-1 |

The risk of default on these financial instruments is considered low.

### E) INCOME TAXES

As at December 31, 2019 and 2018, the Fund had capital losses carry forward of \$216 (2018 – \$nil) and no non-capital losses for income tax purposes. Capital losses may be carried forward indefinitely to be applied against future capital gains. Non-capital losses may be utilized to reduce taxable income over the twenty years following the tax year in which they arise.



## NOTES TO THE FINANCIAL STATEMENTS

### 1. THE FUNDS

Purpose High Interest Savings ETF, Purpose US Cash ETF, Purpose Money Market Fund, Purpose Global Bond Fund, Purpose Strategic Yield Fund, Purpose Canadian Preferred Share Fund, Purpose US Preferred Share Fund, Purpose Floating Rate Income Fund, Purpose US Dividend Fund, Purpose International Dividend Fund, Purpose Emerging Markets Dividend Fund, Purpose Marijuana Opportunities Fund, Purpose Multi-Asset Income Fund, Purpose Multi-Strategy Market Neutral Fund, Purpose Credit Opportunities Fund, Purpose Gold Bullion Fund and Purpose Silver Bullion Fund (the “Funds”, and individually a “Fund”) are investment funds established by declaration of trust under the laws of the Province of Ontario.

The manager of the Funds is Purpose Investments Inc. (the “Manager” or “Purpose”). The registered office of the Funds is located at 130 Adelaide Street, Suite 3100, P.O. Box 109, Toronto, Ontario, M5H 3P5.

The following table sets out the Funds’ Investment Sub-Advisors (collectively, the “Investment Sub-Advisors”) and the date of commencement of operations of each Fund:

| Fund  | Investment sub-advisor                   | Date of commencement of operations |
|---|--|------------------------------------|
| Purpose High Interest Savings ETF                   | Neuberger Berman Breton Hill ULC         | October 15, 2013                   |
| Purpose US Cash ETF                                 | N/A                                      | February 23, 2016                  |
| Purpose Money Market Fund                           | N/A                                      | March 7, 2019                      |
| Purpose Global Bond Fund                            | Neuberger Berman Investment Advisers LLC | October 28, 2015                   |
| Purpose Strategic Yield Fund                        | Purpose Investment Partners Inc.         | December 31, 2011                  |
| Purpose Canadian Preferred Share Fund               | N/A                                      | October 22, 2004                   |
| Purpose US Preferred Share Fund <sup>1</sup>        | Neuberger Berman Investment Advisers LLC | March 15, 2017                     |
| Purpose Floating Rate Income Fund                   | Neuberger Berman Investment Advisers LLC | June 17, 2011                      |
| Purpose US Dividend Fund                            | Neuberger Berman Breton Hill ULC         | November 24, 2014                  |
| Purpose International Dividend Fund                 | Neuberger Berman Breton Hill ULC         | April 21, 2015                     |
| Purpose Emerging Markets Dividend Fund <sup>2</sup> | Neuberger Berman Breton Hill ULC         | November 5, 2010                   |
| Purpose Marijuana Opportunities Fund                | N/A                                      | February 1, 2018                   |
| Purpose Multi-Asset Income Fund                     | N/A                                      | November 2, 2015                   |
| Purpose Multi-Strategy Market Neutral Fund          | Neuberger Berman Breton Hill ULC         | September 13, 2013                 |
| Purpose Credit Opportunities Fund                   | Purpose Investment Partners Inc          | June 30, 2014                      |
| Purpose Gold Bullion Fund                           | N/A                                      | October 10, 2018                   |
| Purpose Silver Bullion Fund                         | N/A                                      | June 8, 2009                       |

1 Effective April 29, 2019, the Fund’s sub-advisor changed from Nuveen Asset Management, LLC to Neuberger Berman Investment Advisers LLC.

2 Effective July 2, 2019, the Fund’s sub-advisor changed from Somerset Capital Management LLP to Neuberger Berman Breton Hill ULC.

Each Fund’s financial statements include the *Schedule of Investments* at December 31, 2019 and the *Statements of Financial Position* at December 31, 2019 and 2018 as applicable, the *Statements of Comprehensive Income*, *Statements of Changes in Financial Position* and *Statements of Cash Flows* for the years ended December 31, 2019 and 2018 as applicable (the “financial statements”). Purpose Money Market Fund was launched in 2019 and includes the *Schedule of Investments* at December 31, 2019, the *Statements of Financial Position* at December 31, 2019, and the *Statements of Comprehensive Income*, *Changes in Financial Position* and *Cash Flows* for the period from the commencement of operations to December 31, 2019. Purpose Marijuana Opportunities Fund and Purpose Gold Bullion Fund, which were launched in 2018, include the *Schedule of Investments* at December 31, 2019, the *Statements of Financial Position* at December 31, 2019 and 2018, and the *Statements of Comprehensive Income*, *Changes in Financial Position* and *Cash Flows* for the year ended December 31, 2019 and for the period from the commencement of operations to December 31, 2018.

These financial statements were approved for issuance by Purpose on March 27, 2020.

### 2. INVESTMENT OBJECTIVES

The purpose of each Fund is to invest the assets attributable to that Fund in accordance with the investment objectives attributable to that Fund. The investment objectives for each Fund are set out in note A in the Specific Information for each Fund.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements have been prepared on a going concern basis using the historical cost convention. However, each Fund is an investment entity and primarily all financial assets and financial liabilities are measured at fair value in accordance with IFRS. Accordingly, the Funds’ accounting policies for measuring the fair value of investments and derivatives are consistent with those used in measuring the Net Asset Value for transactions with unitholders.

In applying IFRS, management may make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting periods. Actual results may differ from such estimates. The preparation of the Fund’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognized in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Purpose has concluded that the Funds met the additional characteristics of an investment entity within IFRS 10, *Consolidated Financial Statements*, with the exception of Purpose US Cash ETF.

The financial statements have been presented in Canadian dollars, which is the Funds’ functional currency, with the exception of Purpose US Cash ETF, whose functional and presentational currency is the US dollar.

#### FINANCIAL INSTRUMENTS

Financial instruments include financial assets and liabilities such as debt and equity securities, open-ended investment funds and derivatives. Each Fund classifies and measures financial instruments in accordance with IFRS 9, *Financial Instruments* (“IFRS 9”). On initial adoption of IFRS 9, there was no impact to the financial statements of each Fund. Upon initial recognition, financial instruments are classified as fair value through profit or loss (“FVTPL”). All financial instruments are recognized in the *Statements of Financial Position* when a Fund becomes a party to the contractual requirements of the instrument. Financial assets are derecognized when the right to receive cash flows from the instrument has expired or a Fund has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation is discharged, cancelled and expires. As such, investment purchase and sale transactions are recorded as of the trade date. Financial instruments are subsequently measured at FVTPL with changes in fair value recognized in the *Statements of Comprehensive Income* – Net unrealized gain (loss).

#### Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and short-term investments.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Funds include in this category amounts relating to receivables in respect of amounts receivable for portfolio securities sold and other short-term receivables.

#### Other financial liabilities

This category includes all financial liabilities, other than those classified as fair value through profit or loss. The Funds include in this category amounts relating



## NOTES TO THE FINANCIAL STATEMENTS (continued)

to payables in respect of amounts payable for portfolio securities purchased and other accrued liabilities.

A financial asset or a financial liability is recognized when a Fund becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognized on the trade date.

Premiums received from writing options are included in derivative liabilities and subsequently measured at fair value on the Statements of Financial Position as initial reductions in the value of investments. Premiums received from writing options that expire unexercised are recorded as realized gains and reported as Net gain (loss) on sale of investments and derivatives on the Statements of Comprehensive Income. For a closing transaction, if the cost of closing the transaction exceeds the premium received, a Fund will record a realized loss or, if the premium received at the time the option was written is greater than the amount paid, a Fund will record a realized gain and are reported as Net gain (loss) on sale of investments and derivatives. If a written put option is exercised, the cost for the security delivered is reduced by the premiums received at the time the option was written.

### Valuation of financial instruments

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statements of Financial Position at fair value upon initial recognition. All transaction costs such as brokerage commissions, incurred in the purchase and sale of securities for such instruments are recognized directly in profit or loss. Loans and receivables and other financial liabilities (other than those classified as fair value through profit and loss) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

After initial measurement, the Funds measure financial instruments that are classified as fair value through profit or loss, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in unrealized appreciation (depreciation) on investments. The applicable period change in unrealized appreciation (depreciation) of investments is included on the Statements of Comprehensive Income. The average cost of portfolio investments represents the sum of the average cost of each portfolio investment. For the purposes of determining the average cost of each portfolio investment, the purchase price of the portfolio investment acquired by a Fund is added to the average cost of the particular portfolio investment immediately prior to the purchase. The average cost of a portfolio investment is reduced by the number of shares or units sold multiplied by the average cost of the portfolio investment at the time of the sale. The average cost per share or unit of each portfolio investment sold is determined by dividing the average cost of the portfolio investment by the number of shares or units held immediately prior to the sale transaction. Transaction costs incurred in portfolio transactions are excluded from the average cost of investments and are recognized immediately in net income and are presented as a separate expense item in the financial statements. Realized gains and losses from the sale of portfolio investments are also calculated based on the average costs, excluding transaction costs, of the related investment.

Loans and receivables, and other assets and liabilities (other than those classified as fair value through profit or loss) are measured at amortized cost.

The Funds' obligation for net assets attributable to holders of redeemable units is presented at the redemption amount before discount.

The Funds measure their financial instruments, such as equities, bonds and other interest-bearing investments and derivatives, at fair value at each reporting date. 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 measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability.

The fair values of each specific type of investment and derivative are determined in the following manner:

### Portfolio Investments

Portfolio investments listed on recognized public securities exchanges are valued using their last traded market price on the securities exchange when the price falls within the day's bid-ask spread. In the circumstance when the close or last traded price falls outside of the bid-ask spread, then fair value is determined by using bid price for long positions and ask price for short positions or a different point within the bid-ask spread that management determines to be more representative of fair value.

Securities that are not listed on any recognized public securities exchanges are reviewed individually, and the Manager uses in-house pricing models to price such securities. Manually priced securities are reviewed and approved by the valuations committee on a quarterly basis. The pricing models used by the Manager are generally based on discounted cash flow valuation approach, financial statement review, and review of comparable transactions. Other valuation techniques may be used where applicable.

### Derivatives

Derivative instruments are financial contracts that derive their value from underlying changes in equity prices, interest rates, foreign exchange rates or other financial or commodity prices or indices. Derivative instruments are either regulated exchange-traded contracts or negotiated over-the-counter contracts. Funds may use these instruments for trading purposes, as well to manage a Fund's risk exposure.

Derivatives are measured at fair value. Realized and unrealized gains and losses are recorded in the Statements of Comprehensive Income.

### Valuation of forward currency contracts

The Funds may enter into forward currency contracts for hedging purposes or to establish an exposure to a particular currency. Forward currency contracts are valued based on the difference between the contract forward rate and the forward bid rate (for currency held) or the forward ask rate (for currency sold short) on the valuation date. Upon the closing of a contract, the gain or loss is included in the Statements of Comprehensive Income.

### Valuation of future contracts

The margin deposits with brokers relating to futures contracts are included in cash held at broker for margin on the Statements of Financial Position. Any change in the margin requirement is settled daily and is included in cash held at broker for margin on the Statements of Financial Position.

Any difference between the settlement value at the close of business on each valuation date and the settlement value at the close of business on the previous valuation date is recorded as net change in unrealized appreciation (depreciation) in value of futures contracts on the Statements of Comprehensive Income.

### Valuation of options

When any option is written by any Fund, the premium received by the Funds will be reflected as a liability that will be valued at an amount equal to the current fair value of the option that would have the effect of closing the position. Any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment; the liability shall be deducted in arriving at the net assets attributable to holders of redeemable units of the Funds. The securities that are the subject of a written option, if any, will be valued in the manner described above for listed securities.

### Valuation of margin

Margin paid or deposited in respect of futures contracts and forward contracts will be reflected as cash, and margin consisting of assets other than cash will be noted as held as collateral.

Other derivatives and margin are fair valued in a manner that the Manager determines to represent their fair value.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### *Valuation of warrants*

Unlisted warrants are valued using the Black Scholes option valuation model. The model factors in the time value of money and volatility.

### **Other financial assets and liabilities**

All trade receivables and other accounts receivable are designated as receivables. They are recorded at amortized cost, which approximates their fair value. Similarly, all trade payables and accrued expenses are designated as financial liabilities and are recorded at amortized cost, which approximates their fair value.

### **INCOME RECOGNITION**

#### **Interest income for distribution purposes**

The interest income for distribution purposes shown on the Statements of Comprehensive Income represents the interest received by the Fund accounted for on an accrual basis. The Funds do 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. The interest income for distribution purposes is the tax basis of calculating the interest received and which is subject to tax.

#### **Dividend revenue**

Dividend revenue is recognized when the Funds' right to receive the payment is established. Dividend revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the Statements of Comprehensive Income.

#### **Securities lending**

The Funds may lend portfolio securities in order to earn additional revenue from fees paid by the counterparty, which is included on the Statements of Comprehensive Income. These transactions involve the temporary exchange of qualified securities as collateral with a commitment to deliver the same securities on a future date.

The market value of the loaned securities is determined on the close of any valuation date and any additional required collateral is delivered to the Funds on the next business day. The securities on loan continue to be included on the Schedule of Investments and are included in the total value on the Statements of Financial Position in investments at fair value.

The Funds may engage in securities lending transactions. The credit risk related to securities lending transactions is limited by the fact that the value of the securities held as collateral by the Funds in connection with these transactions is at least 105% of the fair value of the securities loaned. The collateral and loaned securities are marked to market on each business day. The securities lending agent of the Funds is the Bank of New York Mellon. Further information regarding the collateral and securities on loan can be found in the footnotes to the Statements of Comprehensive Income.

#### **IFRS 15 – Revenue Recognition**

The Funds have adopted IFRS 15 in each of their financial statements for the annual period beginning January 1, 2018 (or in the case of Purpose Marijuana Opportunities Fund and Purpose Gold Bullion Fund, February 1, 2018 and October 10, 2018 respectively). Since each Fund meets the definition of an investment entity, the revenues earned during the year are considered investment income. Investment income is not in scope of IFRS 15, and therefore, the application of the new standard had no overall impact on the Funds' financial statements.

#### **REDEEMABLE PARTICIPATING UNITS**

Redeemable participating units are classified as financial liabilities and are redeemable at the unitholder's option at prices based on the Funds' NAV per unit at the time of redemption. The amounts are continuously measured at their redemption value prior to discounts. The Funds' units do not meet the criteria in IAS 32 for classification as equity and therefore, have been reclassified and presented as a financial liability.

### **FOREIGN CURRENCY TRANSLATIONS**

Transactions during the year, including purchases and sales of securities, income and expenses, are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date.

Foreign currency transaction gains and losses on financial instruments classified as fair value through profit or loss are included in profit or loss in the Statements of Comprehensive Income as part of the "net change in unrealized appreciation (depreciation) in value of investments".

### **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Funds based the assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Funds. Such changes are reflected in the assumptions when they occur.

#### **Fair value of other assets**

Included in other assets is a receivable of Purpose Floating Rate Income Fund \$2,942,040 that is currently in dispute creating uncertainty as to whether the amount that will be fully recovered. The amount recorded as other assets reflects the best estimate of what is collectible.

#### **Fair value of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the Statements of Financial Position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include consideration of liquidity and model inputs related to items such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the Statements of Financial Position and the level where the instruments are disclosed in the fair value hierarchy. The models are tested for validity by calibrating to prices from any observable current market transactions in the same instrument (without modification or repackaging) when available.

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

In classifying and measuring financial instruments held by the Funds, Purpose is required to make significant judgements in order to determine the most appropriate classification in accordance with IFRS 9. Purpose has assessed the Funds' business model, the manner in which all financial instruments are managed and performance evaluated as a group on a fair value basis, and concluded that FVTPL in accordance with IFRS 9 provides the most appropriate measurement and presentation of the Funds' financial instruments.

### **TAXES**

Uncertainties exist with respect to the interpretation of complex tax regulations and changes in tax laws on foreign withholding tax. Given the wide range of international investments, differences arising between the actual investment income and the assumptions made, or future changes to such assumptions could necessitate future adjustments to tax expense already recorded. The Funds establish provisions, based on reasonable estimate for possible consequences of audits by the tax authorities of the respective countries in which it invests. The amounts of such provisions are based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

the conditions prevailing in the respective investment's domicile. As the Funds assess the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

**4. REDEEMABLE PARTICIPATING UNITS**

The Funds are authorized to issue an unlimited number of classes of units and an unlimited number of units of each class. The units are redeemable and transferable. Each unit of a Class entitles the holder to the same rights and privileges in relation to any other unitholder of that class, subject to the terms

and conditions of the declaration of trust. Unitholders are entitled to vote at all meetings of all unitholders and at all meetings of unitholders of the same Class as the units held. All ETF and Mutual Fund Unit Classes rank equally with respect to the payment of distributions. The realized and unrealized gains or losses and income and common expenses of the Funds are allocated on each valuation date to the unitholders in proportion to the respective prior day net asset value of each Class of units at the date on which the allocation is made. All Class specific expenses do not require an allocation.

**ETF Units and Mutual Fund Units**

The Funds have issued ETF units, traded on the Toronto Stock Exchange ("TSX") and Aequitas Neo ("NEO") exchanges, and mutual fund units as set out below:

| Fund                                       | ETF Units | ETF Units<br>(USD Purchase Option) | ETF Non-Currency<br>Hedged Units | Mutual Fund Units  |
|--|-----------|------------------------------------|----------------------------------|--|
| Purpose High Interest Savings ETF          | TSX: PSA  |                                    |                                  |  |
| Purpose US Cash ETF                        |           | TSX: PSU.U                         |                                  |  |
| Purpose Money Market Fund                  |           |                                    |                                  | Class A, Class F   |
| Purpose Global Bond Fund                   | TSX: BND  |                                    |                                  | Class A, Class F, Class D  |
| Purpose Strategic Yield Fund               | TSX: SYLD |                                    |                                  | Class A, Class F, Class I, Class P, Class X, Class Y, Class UA, Class UF, Class TA6, Class TF6                                 |
| Purpose Canadian Preferred Share Fund      | NEO: RPS  |                                    |                                  | Class A, Class F   |
| Purpose US Preferred Share Fund            | NEO: RPU  | NEO: RPU.U                         | NEO: RPU.B                       | Class A, Class A (Non-Currency Hedged), Class F, Class F (Non-Currency Hedged)   |
| Purpose Floating Rate Income Fund          | TSX: FLOT | TSX: FLOT.U                        | TSX: FLOT.B                      | Class A, Class A (Non-Currency Hedged), Class F, Class F (Non-Currency Hedged)   |
| Purpose US Dividend Fund                   | TSX: PUD  |                                    | TSX: PUD.B                       | Class A, Class A (Non-Currency Hedged), Class F, Class F (Non-Currency Hedged) Class D, Class I, Class I (Non-Currency Hedged) |
| Purpose International Dividend Fund        | TSX: PID  |                                    |                                  | Class A, Class F, Class D, Class I   |
| Purpose Emerging Markets Dividend Fund     | NEO: REM  |                                    |                                  | Class A, Class F   |
| Purpose Marijuana Opportunities Fund       | NEO: MJJ  |                                    |                                  | Class A, Class F   |
| Purpose Multi Asset Income Fund            | TSX: PINC |                                    |                                  | Class A, Class F, Class I, Class P, Class X, Class UA, Class UF, Class TA6, Class TF6  |
| Purpose Multi-Strategy Market Neutral Fund | TSX: PMM  |                                    |                                  | Class A, Class F, Class D, Class P   |
| Purpose Credit Opportunities Fund          |           |                                    |                                  | Class A, Class F, Class I, Class A2 (prospectus-exempt), Class F2 (prospectus-exempt), Class I2 (prospectus-exempt)            |
| Purpose Gold Bullion Fund                  | TSX: KILO | TSX: KILO.U                        | TSX: KILO.B                      | Class F  |
| Purpose Silver Bullion Fund                | TSX: SBT  | TSX: SBT.U                         | TSX: SBT.B                       |  |

ETF units may be redeemed on any trading day at 95% of their closing price on the TSX or the NEO, however, they will generally be able to sell ETF units at the market price through a registered broker or dealer. Mutual Fund units may be redeemed daily, subject to certain minimum amounts, by sending a redemption request to the unitholder's registered broker or dealer.

**5. MANAGEMENT FEES, ADMINISTRATIVE FEES, AND OTHER EXPENSES****Management fees**

Each Fund pays the Manager a management fee for portfolio management and distribution services, as well as oversight of portfolio sub-advisory services. The management fee is based on the average daily net asset value of the units of the applicable classes. The management fee, plus applicable HST, is accrued daily and paid monthly in arrears. The Manager may, from time to time in its discretion, waive all or a portion of the management fee charged at any given time. In addition, the Manager may reduce the management fee borne by certain unitholders who have signed an agreement with the Manager. The Funds will pay out the amount of the reduction in the form of a management fee distribution to the eligible unitholder.

The Funds can invest in underlying funds managed by the Manager or an affiliate of the Manager or by third parties in which case the Manager cannot charge management fees to both the Funds and the underlying funds where that would result in the duplication of a fee for the same services.

**Administrative fees**

The Manager has agreed to pay the operating and administrative expenses incurred by each Fund in respect of the Class A units, Class F units, Class D units and ETF units which exceed 0.05% per annum of the net asset value ("Net Asset Value") of each such Class of units for the following funds:

Purpose Global Bond Fund  
Purpose US Dividend Fund

Purpose International Dividend Fund  
Purpose Multi-Strategy Market Neutral Fund

This means the Funds pay only up to 0.05% per annum of the Net Asset Value of each such Class of units for administrative expenses, plus the other costs and expenses referred to below. The administrative fees ("Administrative Fees") include accounting, audit and legal fees, safekeeping and custodial fees, investor reporting cost for annual and semi-annual financial statements, expenses in connection with the preparation of prospectus and other regulatory reports, regulatory filing fees, exchange listing fees (if applicable) and other operating and administrative expenses.

The Manager may, in its discretion, determine to increase the amount of the Administrative Fees payable by a Fund or cease paying any of the Administrative Fees. However, Administrative Fees do not include, and each Fund is responsible for paying additional expenses: the costs and expenses incurred in complying with NI 81-107 (including any expenses related to the implementation and on-going operation of an independent review committee), transfer agent fees and expenses, brokerage expenses and commissions, income and withholding taxes as well as all other applicable taxes, including HST, bank charges and interest expenses, the costs of complying with any new governmental or regulatory requirement introduced after each Fund was established and extraordinary expenses including any costs associated with the printing and distribution of any documents that the securities regulatory authorities require be sent or delivered to investors in a Fund. The Administrative Fees payable by a Fund, plus applicable HST, is calculated and accrued daily and paid monthly in arrears.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

The Manager has agreed to pay all of the Administrative Fees in respect of the Class I units.

The Manager may, from time to time, in its sole discretion, pay all or a portion of any costs and expenses which would otherwise be payable by the Funds (i.e. those operating expenses which are not described as Administrative Fees above).

Each of the following Funds is responsible for paying additional Expenses:

Purpose Canadian Preferred Share Fund  
Purpose Strategic Yield Fund  
Purpose High Interest Savings ETF  
Purpose US Cash ETF  
Purpose Money Market Fund  
Purpose US Preferred Share Fund  
Purpose Emerging Markets Dividend Fund  
Purpose Marijuana Opportunities Fund  
Purpose Multi-Asset Market Neutral Fund  
Purpose Gold Bullion Fund  
Purpose Silver Bullion Fund

This includes the costs and expenses incurred in complying with NI 81-107 (including any expenses related to the implementation and on-going operation of an independent review committee), transfer agent fees and expenses, brokerage expenses and commissions, income and withholding taxes as well as all other applicable taxes, including HST, bank charges and interest expenses, the costs of complying with any new governmental or regulatory requirement introduced after each Fund was established and extraordinary expenses including any costs associated with the printing and distribution of any documents that the securities regulatory authorities require be sent or delivered to investors in a Fund. The Administrative Fees payable by a Fund, plus applicable HST, is calculated and accrued daily and paid monthly in arrears.

The Manager may, from time to time, in its sole discretion, pay all or a portion of any costs and expenses which would otherwise be payable by the Funds (i.e. those operating expenses which are not described as Administrative Fees above). In addition, the Manager may reduce the management fee borne by certain unitholders who have signed an agreement with the Manager. The Funds will pay out the amount of the reduction in the form of a management fee distribution to the eligible unitholder.

### 6. INTERESTS IN UNDERLYING FUNDS

The Funds may invest in other investment funds (“underlying funds”). Where applicable, a Fund’s interests in underlying funds are reported in its Schedule of Investment Portfolio at fair value, which represent the Funds’ maximum exposure on these investments. Investment income earned from underlying funds is included in net gains on investments in the Statements of Comprehensive Income. The Funds do not provide any additional significant financial or other support to underlying funds.

The interest in underlying funds is included in the Fund-Specific Notes.

### 7. INCOME TAXES AND WITHHOLDING TAXES

The Funds qualify and intend to continue to qualify as mutual fund trusts under the Income Tax Act (Canada) and, accordingly, are subject to tax on their investment income, including net realized capital gains, for any tax year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of its tax year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders on a tax year basis such that no Canadian income taxes are payable by the Funds. As a result thereof, no provision for income taxes is made in these financial statements.

The capital and non-capital losses for each specific fund are included in the Fund-Specific Notes.

The Funds may incur 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 as a separate expense in the Statements of Comprehensive Income.

### 8. INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS PER UNIT

Increase (decrease) in net assets from operations attributable to holders of redeemable units per unit of each class is calculated by dividing the Increase (decrease) in net assets attributable to holders of redeemable units from operations (excluding distributions), as reported in the Statements of Comprehensive Income, by the weighted average number of units in issue during the related period.

### 9. BROKERAGE COMMISSIONS

The Investment Sub-Advisor makes decisions, including the selection of markets and dealers and the negotiation of commissions, with respect to the purchase and sale of portfolio securities, certain derivative products (including futures) and the execution of portfolio transactions. Commissions paid to brokers in connection with portfolio transactions are included in transaction costs in the Funds’ Statements of Comprehensive Income. Brokerage business is allocated based on which broker can deliver to the Funds the best trade execution.

Soft dollar arrangements are when trades are allocated to brokers that provide or pay for, in addition to transaction execution, investment research, statistical or other similar services. Any soft dollar commissions are identified in the referenced footnote on the Statements of Comprehensive Income and refer to amounts paid to dealers.

### 10. FAIR VALUE INVESTMENTS

IFRS 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The Funds’ hierarchy for disclosing the fair value of its financial instruments is based on the inputs summarized below:

- Level 1 – valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
  - Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or corroborated by observable market data by correlation or other means.
  - Level 3 – valuation techniques with significant unobservable market inputs.
- For assets and liabilities that are recognized in the financial statements on a recurring basis, the Funds determine whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each reporting period.

The Funds’ fair value hierarchy classification of its assets and liabilities is included in Fair value measurements in the Fund-Specific Notes.

### 11. FINANCIAL RISKS

In the normal course of business the Funds are exposed to a variety of financial risks: market price risk, interest rate risk, currency risk, portfolio concentration risk, credit risk and liquidity risk. The Funds’ primary risk management objective is to protect earnings and cash flow and, ultimately, unitholder value. Risk management strategies, as discussed below, are designed and implemented to ensure the Funds’ risks and related exposures are consistent with their objectives and risk tolerance.

Most of the Funds’ risks are derived from their investments. The value of the investments within the Funds’ portfolios can fluctuate on a daily basis as a result

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

of changes in interest rates, economic conditions, commodity prices, and the market and company news related to specific securities held by a Fund. The investments are made in accordance with the Funds' risk management policies. The policies establish investment objectives, strategies, criteria and restrictions.

The objectives of these policies are to identify and mitigate investment risk through a disciplined investment process and the appropriate structuring of each transaction. Each Funds' financial risk disclosure is included in the Fund-Specific Notes.

**Market price risk**

Market price risk arises primarily from uncertainties about the future market prices of instruments held. Market price fluctuations may be caused by factors specific to an individual investment, or factors affecting all securities traded in a market or industry sector. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value. There is a significant exposure to market price risk arising from investment in equity securities.

**Interest rate risk**

Interest rate risk arises from interest-bearing financial instruments where the values of those instruments fluctuate due to changes in market interest rates.

**Currency risk**

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Funds' functional currency. The Funds are exposed to the risk that the value of financial instruments denominated in other currencies will fluctuate due to changes in exchange rates. Forward currency contracts and options may be utilized by the Funds to hedge against currency fluctuations. The Funds' exposure to currency risk relates primarily to cash and investments which are denominated in foreign currencies, primarily US dollars.

**Portfolio concentration risk**

Concentration indicates the relative sensitivity of the Funds' performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Manager manages the risk through diversification and a thorough understanding of each investment in the portfolio.

**Credit risk**

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

The Funds' main exposure to credit risk is: (a) their trading of listed securities – the risk of default is considered minimal as all transactions are settled and paid for upon delivery using approved brokers; (b) their investment in debt securities through exchange traded funds because the issuer of an instrument that the exchange traded fund invests in may be unable to make interest payments or repay the principal amount on maturity. The concentration of credit risk of investments in debt instruments is minimal since the Funds invest in a variety of debt instruments issued by numerous issuers included in an exchange traded fund, (c) their exposure to non-listed securities; and (d) the Funds may enter into derivative contracts to hedge their exposure to foreign currencies. The unrealized gain (loss) on outstanding contracts with counterparties represents the maximum credit exposure. These contracts are carried out with counterparties with a credit rating of at least "A-". The exposure to credit risk on these contracts is considered minimal as there are few contracts outstanding at any one time and the transactions are settled and paid for upon delivery.

**Liquidity risk**

Liquidity risk is the risk of not being able to meet the Funds' cash requirements in a timely manner and includes the risk of not being able to liquidate assets

at reasonable prices. This risk mainly arises from the Funds' exposure to daily redemptions. Sufficient notification is required for redemption requests to allow the Manager to sell investments to raise cash to fund redemptions. In addition, the Funds retain sufficient cash positions to meet their daily cash requirements. All liabilities are due within three months.

**12. CAPITAL MANAGEMENT**

The Funds consider their capital to consist of their issued and outstanding units. The Funds are not subject to externally imposed capital requirements and have no legal restrictions on the issue, repurchase or resale of redeemable units beyond those included in the Funds' prospectus. The capital received by a Fund is managed to achieve its investment objective of the Fund while maintaining liquidity to satisfy unitholder redemptions.

The Funds manage their capital in accordance with their investment objectives and strategies and the risk management practices outlined in note 11 while maintaining sufficient liquidity to meet distributions and redemptions. In order to manage its capital structure, the Funds may adjust the amount of distributions paid to unitholders.

Changes in the units issued and outstanding of each Class of each Fund for the years ended December 31, 2019 and 2018 as applicable are reported in Fund-Specific note B, Redeemable Participating units.

**13. DISTRIBUTIONS**

The Funds expect to pay cash distributions of excess income as indicated below:

|  |                 |
|--|-----------------|
| Purpose High Interest Savings ETF          | monthly         |
| Purpose US Cash ETF                        | monthly         |
| Purpose Money Market Fund                  | monthly         |
| Purpose Global Bond Fund                   | monthly         |
| Purpose Strategic Yield Fund               | monthly         |
| Purpose Canadian Preferred Share Fund      | monthly         |
| Purpose US Preferred Share Fund            | monthly         |
| Purpose Floating Rate Income Fund          | monthly         |
| Purpose US Dividend Fund                   | monthly         |
| Purpose International Dividend Fund        | monthly         |
| Purpose Emerging Markets Dividend Fund     | monthly         |
| Purpose Marijuana Opportunities Fund       | quarterly       |
| Purpose Multi-Asset Income Fund            | monthly         |
| Purpose Multi-strategy Market Neutral Fund | annually if any |
| Purpose Credit Opportunities Fund          | monthly         |
| Purpose Gold Bullion Fund                  | annually if any |
| Purpose Silver Bullion Fund                | annually if any |

**14. RELATED PARTY TRANSACTION**

Purpose is deemed to be a related party as current Manager of the Funds. Please refer to note 5 above for fees paid to Purpose. At the inception of the Funds, the Manager purchased units of each Fund.

The Manager has appointed an Independent Review Committee as required by National Instrument 81-107 *Independent Review Committee for Investment Funds*. The mandate of the IRC is to review, and provide input on, the Manager's written policies and procedures that deal with conflict of interest matters in respect of the Fund. The fees for services rendered to the Fund are reported in the Statements of Comprehensive Income. There are no other related party transactions for the Fund.

**15. COMPARATIVE FIGURES**

Certain figures from the prior years have been re-classified to conform with the current year presentation.

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## FUND INFORMATION

### MANAGER

Purpose Investments Inc.  
130 Adelaide Street West  
Suite 3100, P.O. Box 109  
Toronto, ON M5H 3P5

### AUDITOR

Ernst & Young LLP  
EY Tower  
100 Adelaide Street West, P.O. Box 1  
Toronto, ON M5H 0B3

### CUSTODIAN

CIBC Mellon Trust Company  
1 York Street, Suite 700  
Toronto, ON M5J 0B6

### REGISTRAR AND TRANSFER AGENT

TSX Trust Company  
100 Adelaide Street West, Suite 301  
Toronto, ON M5H 4H1

### UNITHOLDER AND RECORDKEEPING

CIBC Mellon Global Securities Company  
1 York Street, Suite 700  
Toronto, ON M5J 0B6

### BOARD OF DIRECTORS AND INDEPENDENT REVIEW COMMITTEE OF PURPOSE FUNDS

#### Som Seif

Chief Executive Officer, Chairman of the Board of Directors and Director

#### Douglas G. Hall

Director, Chair of the Independent Review Committee

#### Randall C. Barnes

Director, Member of the Independent Review Committee

#### Jean M. Fraser

Director, Member of the Independent Review Committee

### OFFICERS AND DIRECTORS OF PURPOSE INVESTMENTS INC.

#### Som Seif

Chief Executive Officer, Chairman of the Board of Directors and Director

#### Rashay Jethalal

President

#### Vladimir Tasevski

Vice President

#### Jeff Bouganim

Chief Financial Officer, Director

#### Caitlin Gossage

Chief Compliance Officer