



PURPOSE

INVESTMENT PARTNERS INC.

UNAUDITED INTERIM FINANCIAL STATEMENTS

PURPOSE CREDIT OPPORTUNITIES FUND
(FORMERLY REDWOOD CREDIT OPPORTUNITIES FUND)
FOR THE FINANCIAL PERIOD ENDED JUNE 30, 2018

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INTERIM FINANCIAL STATEMENTS (unaudited)

NOTICE TO UNITHOLDERS

Purpose Investment Partners Inc., the Manager of Purpose Credit Opportunities Fund (formerly Redwood Credit Opportunities Fund) (the "Fund"), appoints independent auditors to audit the Fund's annual Financial Statements. Under Canadian securities laws (National Instrument 81-106), if an auditor has not reviewed the interim Financial Statements, this must be disclosed in an accompanying notice. The Fund's independent auditor has not performed a review of these interim Financial Statements in accordance with the standards established by the Chartered Professional Accountants of Canada.

STATEMENTS OF FINANCIAL POSITION (unaudited)

As at:

	June 30, 2018 (\$)	December 31, 2017 (\$)
Assets		
Investments:		
Non-derivative financial assets	22,635,364	19,702,099
Cash and cash equivalents	5,571,319	4,777,265
Receivables:		
Dividends	20,773	14,658
Interest	190,072	268,518
Investment securities sold	603,712	-
Prepaid expenses	64,917	61,762
Derivative assets:		
Unrealized gain on forward currency contracts	-	222,077
Total assets	29,086,157	25,046,379
Liabilities		
Investments:		
Investments sold short	4,720,995	2,686,096
Payables		
Management fees (note 5)	34,055	11,693
Performance fees (note 5)	173,631	223,416
Other expenses	58,801	41,627
Dividends	353	2,261
Interest	6,503	-
Distributions to unitholders	-	101,497
Investment securities purchased	657,325	-
Derivative liabilities:		
Unrealized loss on forward currency contracts	151,155	-
Total liabilities	5,802,818	3,066,590
Net assets attributable to holders of redeemable units	23,283,339	21,979,789

	June 30, 2018 (\$)	December 31, 2017 (\$)
Net assets attributable to holders of redeemable units by class		
Class A	3,769,152	3,735,599
Class F	17,272,576	16,197,184
Class I	2,241,611	2,047,006
Total	23,283,339	21,979,789
Number of units outstanding (note 4)		
Class A	355,986	364,844
Class F	1,567,892	1,528,303
Class I	139,907	136,780
Net assets attributable to holders of redeemable units per unit		
Class A	10.59	10.24
Class F	11.02	10.60
Class I	16.02	14.97

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

Approved on behalf of the Board of Directors of Purpose Investment Partners Inc., as trustee and manager of Purpose Credit Opportunities Fund (formerly Redwood Credit Opportunities Fund)



Alexander Liang
Director
August 29, 2018



Scott Bartholomew
Director

STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

For the periods ended:

	June 30, 2018 (\$)	June 30, 2017 (\$)
Income		
Net gains (losses) on investments and derivatives		
Dividends	98,621	66,289
Interest for distribution purpose	518,033	398,217
Net realized gain (loss) on sale of investments	1,421,508	494,318
Net realized gain (loss) on foreign currency forward contracts	(273,075)	(61,970)
Net change in unrealized appreciation (depreciation) in value of investments	563,688	180,647
Net change in unrealized appreciation (depreciation) in value of foreign currency forward contracts	(373,232)	454,299
Net gains (losses) on investments and derivatives	1,955,543	1,531,800
Securities lending income ⁽¹⁾	4,710	2,289
Foreign currency gain (loss) on cash	126,966	(84,009)
Total revenue	2,087,219	1,450,080
Expenses		
Performance fees (note 5)	357,405	242,705
Management fees (note 5)	117,162	84,199
Interest expenses on short positions	31,386	-
Audit fees	12,887	11,756
Transaction costs (note 8)	7,139	11,659
Securities borrowing fees	5,689	4,258
Dividend expenses on short positions	4,088	2,085
Operating fees	1,709	-
Custody fees	1,681	8,362
Withholding taxes (reclaims)	1,179	(1,725)
Interest on loan facility and related expenses	-	11,034
Unitholder reporting costs	-	36,041
Other expenses	51	-
Total expenses	559,139	411,479
Increase (decrease) in net assets attributable to holders of redeemable units	1,528,080	1,038,601

	June 30, 2018 (\$)	June 30, 2017 (\$)
Increase (decrease) in net assets attributable to holders of redeemable units by class (note 7)		
Class A	235,119	157,881
Class F	1,105,195	752,048
Class I	187,766	128,672
Total	1,528,080	1,038,601
Average number of units outstanding (note 7)		
Class A	361,525	325,671
Class F	1,541,569	1,372,785
Class I	138,518	129,799
Increase (decrease) in net assets attributable to holders of redeemable units per unit (note 7)		
Class A	0.65	0.48
Class F	0.72	0.55
Class I	1.36	0.99

(1) Securities lending:
The table below shows a reconciliation of the gross amount generated from the securities lending transactions of the Fund to the revenue from the securities lending disclosed in the Statements of Comprehensive Income.

	June 30, 2018		June 30, 2017	
	\$	%	\$	%
Gross securities lending income	7,447	158.1	2,289	100.0
Withholding taxes	(448)	(9.5)	-	0.0
Agent fees	(2,290)	(48.6)	-	0.0
Securities lending income	4,710	100.0	2,289	100.0

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

STATEMENTS OF CHANGES IN FINANCIAL POSITION (unaudited)

For the periods ended:

	June 30, 2018 (\$)	June 30, 2017 (\$)
Class A		
Net assets attributable to holders of redeemable units at beginning of year	3,735,599	3,259,982
Increase (decrease) in net assets attributable to holders of redeemable units	235,119	157,881
Redeemable unit transactions		
Proceeds from units issued	248,351	98,515
Unit exchanges	(114,639)	-
Reinvestment of distributions	105,277	91,109
Payments on redemption of units	(332,207)	(100,066)
Net increase (decrease) from redeemable unit transactions	(93,218)	89,558
Distributions paid or payable to holders of redeemable units		
From investment income	(108,348)	(97,605)
Total distributions to holders of redeemable units	(108,348)	(97,605)
Net increase (decrease) in net assets attributable to holders of redeemable units	33,553	149,834
Net assets attributable to holders of redeemable units at end of year	3,769,152	3,409,816
Class F		
Net assets attributable to holders of redeemable units at beginning of year	16,197,184	13,922,071
Increase (decrease) in net assets attributable to holders of redeemable units	1,105,195	752,048
Redeemable unit transactions		
Proceeds from units issued	1,253,382	1,252,316
Unit exchanges	114,639	-
Reinvestment of distributions	84,746	78,520
Payments on redemption of units	(1,020,667)	(914,904)
Net increase (decrease) from redeemable unit transactions	432,100	415,932
Distributions paid or payable to holders of redeemable units		
From investment income	(461,903)	(422,949)
Total distributions to holders of redeemable units	(461,903)	(422,949)
Net increase (decrease) in net assets attributable to holders of redeemable units	1,075,392	745,051
Net assets attributable to holders of redeemable units at end of year	17,272,576	14,667,102
Class I		
Net assets attributable to holders of redeemable units at beginning of year	2,047,006	1,781,841
Increase (decrease) in net assets attributable to holders of redeemable units	187,766	128,672
Redeemable unit transactions		
Reinvestment of distributions	48,347	38,877
Net increase (decrease) from redeemable unit transactions	48,347	38,877
Distributions paid or payable to holders of redeemable units		
From investment income	(41,508)	(38,877)
Total distributions to holders of redeemable units	(41,508)	(38,877)
Net increase (decrease) in net assets attributable to holders of redeemable units	194,605	128,672
Net assets attributable to holders of redeemable units at end of year	2,241,611	1,910,513

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

STATEMENTS OF CASH FLOWS (unaudited)

For the periods ended:

	June 30, 2018 (\$)	June 30, 2017 (\$)
Cash Flows from Operating Activities		
Increase (decrease) in net assets attributable to holders of redeemable units	1,528,080	1,038,601
Adjustments for:		
Foreign exchange loss (gain) on cash	(126,966)	62,760
Purchase of investments	(16,942,824)	(34,625,243)
Proceeds from investments sold	18,076,128	31,493,468
Proceeds to settlement of foreign exchange forward contracts	(273,075)	-
Net realized loss (gain) on sale of investments	(1,421,508)	(494,318)
Net realized loss (gain) on forward currency contracts	273,075	-
Change in unrealized depreciation (appreciation) on investments	(563,688)	(180,647)
Change in unrealized depreciation (appreciation) on foreign currency forward contracts	373,232	(454,299)
Net change in non-cash working capital balances	63,522	(243,151)
Margins	-	2,977,436
Transaction costs (note 9)	7,139	-
	993,115	(425,393)
Cash Flows from (used in) Financing Activities		
Proceeds from redeemable units issued	1,501,733	1,702,316
Amount paid on redemption of redeemable units	(1,352,874)	(1,008,835)
Distributions to holders of redeemable units, net of reinvested distributions	(474,886)	(350,925)
	(326,027)	342,556
Foreign exchange gain (loss) on currency	126,966	(62,760)
Net increase (decrease) in cash	667,088	(82,837)
Cash and cash equivalents, at beginning of period	4,777,265	5,946,443
Cash and cash equivalents, at end of period	5,571,319	5,800,846
Interest received	596,479	258,567
Dividends received, net of withholding taxes	91,327	64,910
Interest paid	-	2,141
Interest paid on investments sold short	37,889	6,416
Dividends paid on investments sold short	5,679	1,732

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

SCHEDULE OF INVESTMENTS (unaudited)

As at June 30, 2018

Security	Number of Shares/Units/ Par Value	Average Cost (\$)	Fair Value (\$)
Long Positions – 94.5%			
Equities – 33.1%			
Consumer Discretionary – 0.0%			
NYX Gaming Group Limited, Warrants June 30, 2019	50,000	–	–
		–	–
Consumer Staples – 1.1%			
Alliance One International	11,978	224,987	249,588
		224,987	249,588
Energy – 2.6%			
Athabasca Oil Corporation	121,000	130,534	217,800
Birchcliff Energy Limited	45,000	166,850	216,900
TransCanada Corporation, Preferred Series 7	7,500	144,525	169,350
		441,909	604,050
Financials – 10.6%			
Brookfield Asset Management Inc., Preferred 2.727% Series 28	12,000	220,115	218,400
Brookfield Asset Management Inc., Preferred Series 32	5,000	95,350	123,100
Clairvest Group Inc.	5,000	116,487	238,125
Curo Group Holdings Corporation	10,000	208,675	328,005
Elevate Credit Inc.	5,000	47,796	55,610
Enova International Inc.	8,708	117,247	418,424
Manulife Financial Corporation, Preferred 3.80%	4,500	78,298	101,475
Nationstar Mortgage Holdings Inc.	18,073	336,873	416,507
Power Financial Corporation, Preferred Series P	6,000	118,620	117,120
Power Financial Corporation, Preferred Series T	5,000	99,650	121,150
Prospect Capital Corporation	20,184	230,316	178,049
Royal Bank of Canada, Preferred 4.00% Series AZ	1,600	37,527	37,648
The Toronto-Dominion Bank, Preferred 3.80% Series 3	4,600	106,492	107,732
		1,813,446	2,461,345
Industrials – 1.7%			
Bombardier Inc. 'B' SV	75,000	221,022	390,000
		221,022	390,000
Materials – 3.1%			
Champion Iron Limited	552,455	528,307	723,716
		528,307	723,716
Mutual and Exchange-Traded Funds – 7.0%			
BlackRock Corporate High Yield Fund Inc.	40	599	550
Purpose High Interest Savings ETF	14,000	700,729	700,140
Purpose US Cash ETF	7,000	902,550	920,439
		1,603,878	1,621,129
Real Estate – 7.0%			
Agellan Commercial Real Estate Investment Trust	20,000	164,519	269,800
Inovalis Real Estate Investment Trust	17,800	145,158	179,780
Slate Retail REIT	91,955	1,139,879	1,182,541
		1,449,556	1,632,121
Total Equities – 33.1%		6,283,105	7,681,949
Fixed Income – 61.4%			
Domestic Bonds – 12.1%			
Government of Canada Real Return (Factored) 1.25% December 01, 2047	1,000,000	1,175,722	1,313,946
Government of Canada Real Return (Factored) 1.25% December 01, 2047	1	80,970	–

Security	Number of Shares/Units/ Par Value	Average Cost (\$)	Fair Value (\$)
Millar Western Forest Products Limited Callable 9.50% June 20, 2023	1,000,000	1,000,000	997,090
NuVista Energy Limited Callable 6.50% March 02, 2023	500,000	500,000	502,500
		2,756,692	2,813,536
Foreign Bonds – 49.3%			
Baffinland Iron Corporation LP 8.75% June 15, 2026	1,000,000	1,328,363	1,316,359
Crescent Communities LLC/Crescent Ventures Inc. Callable 8.875% October 15, 2021	426,000	–	–
CURO Financial Technologies Corporation Callable 12.00% March 01, 2022	1,090,000	1,399,518	1,554,771
Enova International Inc. Callable 8.50% September 01, 2024	500,000	628,925	680,331
EP Energy LLC / Everest Acquisition Finance Inc. Callable 7.75% May 15, 2026	500,000	643,950	672,115
Icahn Enterprises/Fin Callable 6.375% due December 15, 2025	500,000	624,300	658,147
Jefferies Finance LLC / JFIN Co-Issuer Corporation Callable 7.25% August 15, 2024	500,000	629,425	644,178
Jefferies Finance LLC / JFIN Co-Issuer Corporation Callable 7.375% April 01, 2020	1,000,000	1,273,248	1,320,868
Largo Resources Limited Callable 9.25% June 01, 2021	1,000,000	1,262,142	1,314,650
Moss Creek Resources Holdings Inc. Callable 7.50% January 15, 2026	500,000	621,700	644,179
Northwest Acquisitions ULC/Dominion Finco Inc. Callable 7.125% November 01, 2022	500,000	620,523	655,682
VistaJet Malta Finance PLC / VistaJet Co Finance LLC Callable 7.75% June 01, 2020	500,000	465,068	650,752
Wand Merger Corporation Callable 8.125% July 15, 2023	500,000	–	–
Williams Scotsman International Inc.	1,000,000	1,270,200	1,360,663
		10,767,362	11,472,695
Total Fixed Income – 61.4%		13,524,054	14,286,231
Total Long Positions – 94.5%		19,807,159	21,968,180
Investments Sold Short – (20.3%)			
Consumer Discretionary – (0.6%)			
Tesla Inc.	(300)	(123,439)	(135,258)
		(123,439)	(135,258)
Financials – (0.3%)			
CI Financial Corporation	(3,000)	(82,360)	(70,890)
		(82,360)	(70,890)
Materials – (0.7%)			
Vale SA, Sponsored ADR	(10,000)	(133,102)	(168,538)
		(133,102)	(168,538)
Total Equities – Sold Short – (1.6%)		(338,901)	(374,686)
Domestic Bonds – (18.7%)			
Government of Canada 1.00% June 01, 2027	(1,000,000)	(893,100)	(906,515)
Government of Canada 1.50% June 01, 2026	(1,000,000)	(961,880)	(953,302)
Government of Canada 2.00% June 01, 2028	(1,000,000)	(956,200)	(985,022)
Government of Canada 2.75% December 01, 2048	(1,340,000)	(1,480,030)	(1,501,470)
Total Bonds – Sold Short		(4,291,210)	(4,346,309)
Total Short Positions – (20.3%)		(4,630,111)	(4,720,995)
Foreign Currency Forward Contracts (Schedule 1) – 0.0%			
		–	(151,155)
Transaction Costs (note 9)			
		(1,690)	–
Total Investments – 74.1%		15,175,358	17,096,030
Cash and Cash Equivalents – 23.9%			
			5,571,319
Other Assets, Less Liabilities – 2.0%			
			615,990
Net Assets – 100.0%			23,283,339

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

SCHEDULE OF INVESTMENTS (unaudited) (continued)

As at June 30, 2018

SCHEDULE 1 - FOREIGN FORWARD CURRENCY CONTRACTS

For the period ended June 30, 2018

Counterparty	S&P Credit Rating for Counterparty	Settlement Date	Currency Buys	Par Value (\$)	Currency Sells	Par Value (\$)	Forward Rate	Current Rate	Unrealized Gain (Loss) (\$)
CIBC World Markets	AA-	July 13, 2018	USD	500,000	CAD	665,375	1.3308	1.3148	(8,202)
CIBC World Markets	AA-	July 13, 2018	CAD	13,329,100	USD	10,250,000	1.3004	1.3148	(142,953)
									(151,155)

NOTES TO THE FINANCIAL STATEMENTS (unaudited)

1. THE FUND

Purpose Credit Opportunities Fund (formerly Redwood Credit Opportunities Fund) (the "Fund") is an investment trust established under the laws of the Province of Ontario pursuant to a master declaration of trust dated as of September 30, 2013 (as amended from time to time, the "Declaration of Trust"). Purpose Investment Partners Inc. (the "Manager") is responsible for managing the affairs of the Fund. CIBC Mellon is the custodian of the Fund's assets and prepares the semi-monthly valuation of the Fund.

On March 31, 2018 LOGiQ Capital Partners Inc. was renamed Purpose Investment Partners Inc.

The Fund currently offers Class A Units, Class F Units and Class I Units (together, the "Units") for sale to investors.

Although the Fund is a "mutual fund" as defined in applicable securities-legislation, it is not required to (and does not) operate in accordance with the requirements of National Instrument 81-102 Mutual Fund and other regulations and policies of the Canadian securities regulators that are applicable only to public mutual Fund.

The address of the Fund's registered office is 130 Adelaide Street West, Suite 1700, Toronto, Ontario, M5H 3P5.

The Fund's financial statements includes the *Schedule of Investments* as at June 30, 2018 and the *Statements of Financial Position* as at June 30, 2018 and December 31, 2017, and the *Statements of Comprehensive Income*, the *Statements of Changes in Financial Position* and the *Statements of Cash Flows* for the periods ended June 30, 2018 and 2017 (the "financial statements").

The financial statements were approved for issuance by the Manager on August 29, 2018.

2. INVESTMENT OBJECTIVES

The investment objective (the "Investment Objective") of the Fund is to maximize total returns for Unitholders, consisting of both distributions and capital appreciation. The Fund invests, directly or indirectly, primarily in debt and equity securities of non-investment grade rated issuers, both publicly-traded and privately-held.

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, the Fund is an investment entity and primarily all financial assets and financial liabilities are measured at fair value in accordance with IFRS. Accordingly, the Fund's 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 judgments, 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.

The Manager has concluded that the Fund has met the additional characteristics of an investment entity within IFRS 10, *Consolidated Financial Statements*.

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

FINANCIAL INSTRUMENTS

Financial instruments include financial assets and liabilities such as debt and equity securities, open-ended investment funds and derivatives. The 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 the Fund. Upon initial recognition, financial instruments are classified as fair value through profit or loss ("FVTPL"). All financial instruments are recognized in the Statement of Financial Position when the 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 the 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 Statement of Comprehensive Income – Net unrealized gain (loss).

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 Fund includes in this category amounts relating to receivables in respect of amounts receivables 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 Fund includes in this category amounts relating 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 the 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.

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 or loss) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

After initial measurement, the Fund measures 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) on 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS (unaudited) (continued)

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

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

The Fund measures its 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 in the principal market for the asset or liability.

The fair values of each specific type of investments and derivatives 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.

Derivatives**Valuation of forward currency contracts**

The Fund may enter into forward currency contracts for hedging purposes or to establish an exposure to a particular currency. Forward currency contracts are valued at fair value of the gain or loss, if any, that would be realized on the valuation date if the position in the forward currency contracts were to be closed out. The gain or loss on forward currency contracts is included in the Statements of Comprehensive Income.

Valuation of equity forward agreement

The value of a forward agreement is the gain or loss that would be realized if, on the valuation date, the position was closed out. The forward agreement is valued each day by applying the value of the collateral portfolio versus the value of the underlying holdings of the forward agreement. The difference in the valuation is recorded in the Statements of Financial Position as the forward agreement, at fair value. When the equity forward agreements are closed out, any gains or losses realized are included in net realized gain or loss on equity forward agreement.

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 for distribution purposes shown on the Statements of Comprehensive Income represents the interest received by the Fund accounted for on an accrual basis.

Dividend revenue

Dividend revenue is recognized when the Fund's 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 Fund 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 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 Fund 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.

REDEEMABLE PARTICIPATING UNITS

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

FUNCTIONAL AND PRESENTATION CURRENCY

The Fund's functional currency is the Canadian dollar (unless otherwise noted), which is the currency of the primary economic environment in which it operates. The Fund's performance is evaluated and its liquidity is managed in Canadian dollars (unless otherwise noted). Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Fund's presentation currency is also the Canadian dollar, unless otherwise noted.

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 gains on investments and derivatives".

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 Fund 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 Fund. Such changes are reflected in the assumptions when they occur.

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 Fund, Purpose is required to make significant judgments in order to determine the most appropriate classification in accordance with IFRS 9. Purpose has assessed

NOTES TO THE FINANCIAL STATEMENTS (unaudited) (continued)

the Fund's 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 Fund's financial instruments.

4. REDEEMABLE PARTICIPATING UNITS

The Fund is authorized to issue an unlimited number of Units, issuable in classes, on a continuous basis. Each Unit represents an equal interest in the assets of the class of such Unit without distinction, preference or priority. The proportionate interest of each Unitholder is expressed by the number of Units and fractions thereof held by and registered in the name of each Unitholder.

Currently, the Fund offers prospective investors the opportunity to purchase Class A Units, Class F Units and Class I Units.

Redeemable units of the Fund surrendered for redemption at least 5 business days prior to the redemption date will be redeemed at the net asset value per unit calculated on the redemption date.

Changes in outstanding units during the period ended June 30, 2018 and December 31, 2017 are summarized as follows:

	Number of Units		
	Class A Units	Class F Units	Class I Units
Outstanding, December 31, 2016	323,372	1,355,658	128,444
Units issued	38,928	315,020	-
Units redeemed	(21,142)	(160,201)	-
Units issued on reinvestment	23,686	17,826	8,336
Outstanding, December 31, 2017	364,844	1,528,303	136,780
Units issued	23,640	126,089	-
Units redeemed	(42,620)	(94,354)	-
Units issued on reinvestment	10,122	7,854	3,127
Outstanding, June 30, 2018	355,986	1,567,892	139,907

5. MANAGEMENT FEES, PERFORMANCE FEES AND OTHER EXPENSES

Each class of units of the Fund (other than Class I units) pays the Manager a management fee for providing general management and administrative services. The fee is calculated and accrued daily and paid monthly. The maximum annual rate of the management fee for Class A and Class F are 1.85% and 0.85%, respectively. No management fees are charged to the Fund for Class I units. Instead, each investor will negotiate a separate fee, which is payable directly to the Manager.

The Manager pays, out of its management fee, a trailer fee to dealers in respect of Class A Units. The trailer fee is calculated monthly and is equal to one-twelfth of 1% of the total client assets invested in Class A Units held by all of the dealer's clients throughout the month. The trailer fee is payable monthly or quarterly. The Manager may change or cancel trailer fees at any time.

The Fund will pay to the Manager, a performance fee in respect of each outstanding Class A Unit and Class F Unit. The performance fee is calculated and accrued on each Valuation Date and is payable to the Manager on the last Business Day of each calendar quarter. The performance fee for each unit in each calendar quarter is equal to 20% of the amount (if any) by which its NAV per Unit on the last Valuation Date in the calendar quarter plus any distributions paid (excluding any accrued performance fee for such calendar quarter) exceeds its highwater mark for the calendar quarter. The highwater mark for a Unit in a calendar quarter is the greatest of (a) \$10.00, (b) the NAV per Unit of that Class on the most recent Valuation Date that a performance fee was payable to the Manager in respect of such Class (after payment of such Performance Fee), and (c) the NAV per Unit of that Class on the last Business Day of the immediately preceding calendar quarter (after payment of any performance fee for such previous calendar quarter). Where a Unit is redeemed on a Redemption

Date other than the last Valuation Date of a calendar quarter, the Fund will pay the Manager a performance fee in respect of such redeemed Unit as if the Redemption Date was the last Valuation Date in the calendar quarter.

The Fund is also responsible for various expenses relating to its operations and management. These expenses may include, without limitation, items such as financial reporting, mailing, printing, trustee fees, custodial fees, transfer agent fees, legal fees, valuation agent fees, audit fees, and regulatory fees. The Fund is also responsible for all taxes, commissions and other costs of securities transactions and any extraordinary expenses that it may incur or that may be incurred on its behalf from time to time. Except for interest and bank charges paid or payable directly by the Fund, the Manager incurs such expenses on the Fund's behalf and is then reimbursed by the Fund for such expenses. The Fund's common operating expenses are allocated to unit classes based on the average daily Net Asset Value of each class.

6. INCOME TAXES AND WITHHOLDING TAXES

The Fund is taxed as a unit trust under the Income Tax Act (Canada). The Fund is required to make distributions each period of its net income and net realized capital gains and, therefore, will not generally be liable for income taxes. However, such part of a fund's taxable income and net realized capital gains that is not so paid or payable will be taxable to that fund. In addition, as the Fund did not qualify as a mutual fund trust for the period ended December 31, 2017, it is also subject to alternative minimum tax.

Capital losses may be carried forward indefinitely to reduce future net realized capital gains. Non-capital losses arising in taxation years after 2005 may be carried forward 20 years. Non-capital losses carried forward may reduce future net investment income.

As at December 31, 2017, the Fund had no non-capital losses. There were no capital losses as at December 31, 2017.

The Fund 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.

7. 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.

8. BROKERAGE COMMISSIONS

Commissions paid to brokers in connection with portfolio transactions are included in transaction costs in the Fund's Statements of Comprehensive Income. Brokerage business is allocated based on which broker can deliver to the Fund 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. The Investment Advisor does not use soft dollar arrangements when selecting brokers for trade execution for the Fund.

NOTES TO THE FINANCIAL STATEMENTS (unaudited) (continued)

9. 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 judgment, considering factors specific to the asset or liability. The Fund's 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 Fund determines whether transfers have occurred between levels in the hierarchy by reassessing the categorization at the end of each reporting period.

The following inputs were used in valuing the Fund's investments and derivatives at fair values as at June 30, 2018:

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Financial assets				
Equities	6,761,510	920,439	-	7,681,949
Fixed income	-	14,286,231	-	14,286,231
Total financial assets	6,761,510	15,206,670	-	21,968,180
Financial liabilities				
Equities – short	374,686	-	-	374,686
Fixed income – short	-	4,346,309	-	4,346,309
Foreign currency forward contracts	-	151,155	-	151,155
Total financial liabilities	374,686	4,497,464	-	4,872,150
Total financial assets and liabilities	6,386,824	10,709,206	-	17,096,030

The following inputs were used in valuing the Fund's investments and derivatives at fair values as at December 31, 2017:

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Financial assets				
Equities	5,839,088	-	-	5,839,088
Fixed income	-	13,863,011	-	13,863,011
Total financial assets	5,839,088	13,863,011	-	19,702,099
Financial liabilities				
Equities – short	243,041	-	-	243,041
Fixed income – short	-	2,443,055	-	2,443,055
Total financial liabilities	243,041	2,443,055	-	2,686,096
Total financial assets and liabilities	5,596,047	11,419,956	-	17,016,003

During the periods ended June 30, 2018 and December 31, 2017, there were no transfers of assets between Level 1, Level 2 and Level 3.

10. FINANCIAL RISKS

In the normal course of business the Fund is exposed to a variety of financial risks: market price risk, interest rate risk, currency risk, credit risk and liquidity risk. The Fund's 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 Fund's risks and related exposures are consistent with its objectives and risk tolerance.

Most of the Fund's risks are derived from its investments. The value of the investments within the Fund's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, commodity prices, and the market and company news related to specific securities held by the Fund. The investments are made in accordance with the Fund's 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.

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. The Fund's most significant exposure to market price risk arises from its investment in equity securities. If equity prices for these securities had increased or decreased by 5% as at June 30, 2018 with all other variables held constant, the Fund's net assets would have increased or decreased, respectively, by approximately \$0.4 million (December 31, 2017 – \$0.3 million). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

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. As a result, the value of the Fund that invests in debt securities and short-term notes or has interest bearing credit facilities will be affected by changes in applicable interest rates. If interest rates fall, the fair value of existing debt securities may increase due to the increase in yield. Alternatively, if interest rates rise, the yield of existing debt securities may decrease which could lead to a decrease in their fair value. The magnitude of the decline will generally be greater for long-term debt securities than for short-term debt securities. Other assets and liabilities are short-term in nature and non-interest bearing.

The Fund is exposed to interest rate risk from debt instruments, the value of which fluctuates due to changes in prevailing levels of market interest rates. The Fund's exposure to interest rate risk by debt instruments' remaining term to maturity was as follows:

Maturity	2018 \$ exposure fixed-income assets (liabilities)	2017 \$ exposure fixed-income assets (liabilities)
Less than 1 year	-	-
1 to 3 years	3,286,270	2,739,632
3 to 5 years	5,070,706	4,972,453
Greater than 5 years	5,929,255	6,150,926
Greater than 5 years	(4,346,309)	(2,443,055)
Total exposure	9,939,922	11,419,956

Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's the functional currency of the Funds. As a result, the Funds may be exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates.

NOTES TO THE FINANCIAL STATEMENTS (unaudited) (continued)

The table below summarizes the Fund's indirect exposure to the foreign currency as at June 30, 2018 and December 31, 2017:

Currency	June 30, 2018		December 31, 2017	
	Net Exposure (\$)	% of Net Assets	Net Exposure (\$)	% of Net Assets
U.S. Dollar	2,143,426	9.21	2,613,016	11.9

If the Canadian dollar weakened or strengthened by 5% as at June 30, 2018, with all other variables held constant, the Fund's net assets would have increased or decreased, respectively, by \$0.1 million (December 31, 2017 – \$0.1 million). In practice, actual results may differ from this sensitivity analysis.

Portfolio concentration risk

Concentration indicates the relative sensitivity of the Fund's 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 that it has entered into with the Fund.

Credit ratings for debt securities, preferred securities and derivative instruments are obtained from Standard & Poor's, where available; otherwise, ratings are obtained from Moody's Investors Service, Dominion Bond Rating Services or Canadian Bond Rating Services.

The Fund's primary credit risks are its investments in fixed income and short-term debt securities. The Manager performs ongoing credit risk evaluation of counterparties.

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at June 30, 2018 and December 31, 2017, the Fund was invested in debt securities with the following credit ratings:

Bond Ratings	June 30, 2018		December 31, 2017	
	% of Total Bonds	% of Net Assets	% of Total Bonds	% of Net Assets
AAA	(30.5)	(13.0)	9.0	5.7
BB	13.2	5.6	26.2	16.5
B	110.8	47.3	40.4	25.5
CCC	6.5	2.8	24.4	15.4
Not rated	0.0	-	0.0	-
Total	100.0	42.7	100.0	63.1

Liquidity risk

Liquidity risk is the risk of not being able to meet the Fund's 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 Fund's exposure to monthly and annual redemptions. Sufficient notification is required for redemption requests to allow the Manager to sell investments to raise cash to fund redemptions. In addition, the Fund retains sufficient cash positions to meet its daily cash requirements. All liabilities are due within three months.

11. CAPITAL MANAGEMENT

The Fund considers its capital to consist of its issued and outstanding units. The Fund's investment objectives are outlined in note 2.

The Fund manages its capital in accordance with its investment objectives and strategies and the risk management practices outlined in note 10 while maintaining sufficient liquidity to meet distributions and redemptions. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to unitholders. The Fund is not subject to any externally imposed capital requirements.

12. RELATED PARTY TRANSACTIONS

Redwood is deemed to be a related party as Manager of the Fund. Please refer to note 5 above for fees paid to Redwood. There are no other related party transactions for the Fund.

The Manager has appointed the Independent Review Committee (IRC) as required by National Instruments 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 Funds. The fees for services rendered to the Funds are reported in the Statements of Comprehensive Income.

13. COMPARATIVE FIGURES

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

14. FILING EXEMPTION

The Fund is relying on the exemption pursuant to Section 2.11 of National Instrument 81-106 – *Investment Trust Continuous Disclosure*, to not file its financial statements with the Ontario Securities Commission. This exception is available when the financial statements have been sent to the unitholders by the Fund, as required under the National Instrument.

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SCOTT BARTHOLOMEW

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