



VALUE
PARTNERS
INVESTMENTS

VPI INCOME POOL

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

MANAGER

VALUE PARTNERS INVESTMENTS INC.

PORTFOLIO MANAGERS

PATIENT CAPITAL MANAGEMENT INC.

CANSO INVESTMENT COUNSEL LTD.

MANAGEMENT REPORT

Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by the management of Value Partners Investments Inc. (Value Partners), the Manager of the Value Partners Pools (the Pools), and approved by the Board of Directors of Value Partners.

Management is responsible for the information and representations contained in these financial statements. The Board of Directors of Value Partners is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee comprised of two independent Directors is appointed by the Board of Directors to review the financial statements, the adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Board of Directors prior to the approval of the audited financial statements.

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

KPMG LLP are the external auditors of the Pools. The external auditors have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out below.

On behalf of Value Partners Investments Inc.
Manager of the Pools



Paul Lawton
Chief Operating Officer and Secretary



Dean Bjarnarson
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Unitholders of VPI Income Pool

We have audited the accompanying financial statements of VPI Income Pool which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, the statements of comprehensive income (loss), changes in financial position and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of VPI Income Pool as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "KPMG LLP". The letters are bold and slightly slanted. A long, horizontal, slightly curved line is drawn underneath the signature.

Chartered Professional Accountants

March 5, 2018

Winnipeg, Canada

VPI INCOME POOL

Statements of Financial Position

(In thousands of dollars and units, except for per unit amounts)

As at	December 31, 2017	December 31, 2016
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Assets

Financial assets at fair value through profit or loss	\$ 758,724	\$ 625,574
Cash	4,201	14,954
Forward currency contracts	1,844	—
Accrued dividends receivable	1,748	1,339
Accrued interest receivable for distribution purposes	2,715	3,756
Subscriptions receivable	136	5,471
Due from brokers	—	2,884
	\$ 769,368	\$ 653,978

Liabilities

Forward currency contracts	\$ —	\$ 243
Accounts payable and accrued liabilities	146	98
Redemptions payable	552	201
Management fees payable (notes 4 and 5)	1,092	947
Distributions payable	—	3,953
Due to Manager (note 5)	4	—
Due to brokers	—	4,008
	1,794	9,450

Net assets attributable to holders of redeemable units

	\$ 767,574	\$ 644,528
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Net assets attributable to holders of redeemable units per series:

Series A	\$ 636,699	\$ 542,008
Series B	28,358	30,802
Series F	100,341	71,718
Series O	2,176	—

Net assets attributable to holders of redeemable units per unit:

Series A	\$ 11.59	\$ 12.10
Series B	10.56	11.08
Series F	11.29	11.82
Series O	10.16	—

Number of redeemable units outstanding:

Series A	54,941	44,800
Series B	2,686	2,779
Series F	8,885	6,066
Series O	214	—

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

VPI INCOME POOL

Statements of Comprehensive Income (Loss)
(In thousands of dollars, except for per unit amounts)

Years ended December 31, 2017 and 2016

	2017	2016
Investment income:		
Interest income for distribution purposes	\$ 17,621	\$ 18,142
Dividend income	8,142	6,592
Foreign exchange gain (loss) on cash	107	(37)
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on sale of investments	11,503	6,533
Net realized gain on forward currency contracts	2,707	1,559
Change in unrealized appreciation (depreciation) in value of investments	(33,716)	36,132
Change in unrealized appreciation in forward currency contracts	2,087	358
	8,451	69,279
Expenses:		
Administration	161	126
Audit fees	17	16
Independent review committee fees	7	7
Security holder reporting costs	298	218
Custodian fees	33	22
Filing fees	47	25
Legal fees	4	4
Management fees (notes 4 and 5)	12,898	9,594
Registered plan fees	11	6
Trustee fees	5	5
Withholding taxes	699	445
Transaction costs	69	49
	14,249	10,517
Absorbed expenses^ (notes 4 and 5)	—	—
	14,249	10,517
Increase (decrease) in net assets attributable to holders of redeemable units	\$ (5,798)	\$ 58,762
Increase (decrease) in net assets attributable to holders of redeemable units per series:		
Series A	\$ (5,586)	\$ 49,639
Series B	(438)	3,110
Series F	229	6,013
Series O	(3)	—
Increase (decrease) in net assets attributable to holders of redeemable units per unit:		
Series A	\$ (0.11)	\$ 1.27
Series B	(0.16)	1.11
Series F	0.03	1.38
Series O	(0.13)	—

^ Absorbed expenses round to nil.

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

VPI INCOME POOL

Statements of Changes in Financial Position
(In thousands of dollars and units)

Years ended December 31, 2017 and 2016

	Series A		Series B		Series F		Series O		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net assets attributable to holders of redeemable units, beginning of year	\$ 542,008	\$ 384,155	\$ 30,802	\$ 27,851	\$ 71,718	\$ 38,324	\$ –	\$ –	\$ 644,528	\$ 450,330
Increase (decrease) in net assets attributable to holders of redeemable units	(5,586)	49,639	(438)	3,110	229	6,013	(3)	–	(5,798)	58,762
Redeemable unit transactions:										
Proceeds from redeemable units issued	181,169	158,080	4,883	6,641	44,838	36,362	2,179	–	233,069	201,083
Reinvestment of distributions to holders of redeemable units	21,917	15,223	1,004	1,063	2,950	2,018	46	–	25,917	18,304
Redemption of redeemable units	(82,321)	(50,795)	(6,853)	(6,773)	(15,238)	(8,737)	–	–	(104,412)	(66,305)
	120,765	122,508	(966)	931	32,550	29,643	2,225	–	154,574	153,082
Distributions to holders of redeemable units:										
Net investment income	(9,460)	(11,556)	(511)	(916)	(2,351)	(1,881)	(6)	–	(12,328)	(14,353)
Net realized gain on investments	(11,028)	(2,738)	(529)	(174)	(1,805)	(381)	(40)	–	(13,402)	(3,293)
Total distributions paid to holders of redeemable units	(20,488)	(14,294)	(1,040)	(1,090)	(4,156)	(2,262)	(46)	–	(25,730)	(17,646)
Net increase (decrease) in net assets attributable to holders of redeemable units	94,691	157,853	(2,444)	2,951	28,623	33,394	2,176	–	123,046	194,198
Net assets attributable to holders of redeemable units, end of year	\$ 636,699	\$ 542,008	\$ 28,358	\$ 30,802	\$ 100,341	\$ 71,718	\$ 2,176	\$ –	\$ 767,574	\$ 644,528
Increase (decrease) in redeemable units outstanding:										
Beginning of year	44,800	34,205	2,779	2,685	6,066	3,482	–	–	53,645	40,372
Issued	15,249	13,691	447	631	3,886	3,182	209	–	19,791	17,504
Issued on reinvestment of distributions	1,875	1,310	94	99	259	177	5	–	2,233	1,586
Redeemed	(6,983)	(4,406)	(634)	(636)	(1,326)	(775)	–	–	(8,943)	(5,817)
Redeemable units outstanding, end of year	54,941	44,800	2,686	2,779	8,885	6,066	214	–	66,726	53,645
Weighted average units outstanding, during the period	51,456	39,010	2,783	2,880	7,439	4,356	23			

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

VPI INCOME POOL

Statements of Cash Flows
(In thousands of dollars)

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from (used in) operating activities:		
Increase in net assets attributable to holders of redeemable units	\$ (5,798)	\$ 58,762
Adjustments for:		
Foreign exchange loss (gain) on cash	(107)	37
Net realized gain on sale of investments	(11,503)	(6,533)
Transaction costs	69	49
Change in unrealized depreciation (appreciation) in value of investments	33,716	(36,132)
Change in unrealized appreciation in forward currency contracts	(2,087)	(358)
Purchase of investments	(519,239)	(331,789)
Proceeds from sale of investments	362,683	175,767
Dividends receivable	(409)	(622)
Interest receivable for distribution purposes	1,041	(532)
Accounts payable and accrued liabilities	48	13
Management fees payable	145	252
Due to Manager	4	—
Net cash used in operating activities	(141,437)	(141,086)
Cash flows from (used in) financing activities:		
Distributions paid to holders of redeemable units, net of reinvested distributions	(3,766)	(6,073)
Proceeds from redeemable units issued	223,745	207,012
Redemption of redeemable units	(89,402)	(66,253)
Net cash from financing activities	130,577	134,686
Foreign exchange gain (loss) on cash	107	(37)
Net decrease in cash	(10,753)	(6,437)
Cash, beginning of year	14,954	21,391
Cash, end of year	\$ 4,201	\$ 14,954
Supplementary information:		
Dividends received, net of withholding tax	\$ 7,034	\$ 5,513
Interest received	18,662	17,022

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

VPI INCOME POOL

Schedule of Investments

(In thousands of dollars, except for unit amounts)

December 31, 2017

Number of units, shares or par value	Description	Maturity date	Coupon rate %	Average cost	Fair value	% of net assets
Short-term investments:						
2,006,000	Canada Treasury Bills	8-Feb-18	0.855	\$ 2,003	\$ 2,003	
23,000,000	Canada Treasury Bills	8-Mar-18	0.871	22,954	22,954	
3,283,000	Canada Treasury Bills	22-Mar-18	1.056	3,275	3,275	
19,711,000	Canada Treasury Bills	22-Feb-18	1.136	19,669	19,669	
				47,901	47,901	6.24
Bonds:						
Corporate bonds:						
20,053,000	Bank of Montreal	29-Mar-18	2.015	20,144	20,082	
12,161,000	Bank of Montreal	11-Apr-19	1.828	12,180	12,208	
14,428,000	Bank of Nova Scotia	20-Apr-18	2.030	14,476	14,455	
25,445,000	Bank of Nova Scotia	1-May-18	1.330	25,438	25,428	
2,640,000	Bank of Nova Scotia	31-Aug-85	1.563	2,214	2,845	
10,029,000	Bell Canada Inc.	3-Oct-22	3.000	10,123	10,150	
3,930,000	Black Press Group Ltd.^	28-Dec-18	10.000	4,012	3,930	
1,006,000	Bombardier Inc.	15-Mar-22	5.750	1,234	1,242	
107,000	Bombardier Inc.	15-Mar-22	5.750	117	132	
10,537,000	Bombardier Inc.	15-Mar-25	7.500	12,464	13,371	
15,721,000	Canadian Imperial Bank of Commerce	1-Jun-18	1.900	15,759	15,750	
2,507,000	Canadian Imperial Bank of Commerce	9-Oct-18	1.700	2,528	2,506	
610,000	Canadian Imperial Bank of Commerce	31-Aug-85	1.500	487	657	
201,703	Canadian Pacific Railway Co.	1-Oct-24	6.910	245	231	
1,558,000	Central 1 Credit Union	21-Nov-18	2.022	1,561	1,565	
334,000	CIT Group Inc.	1-Aug-23	5.000	474	447	
7,004,000	ClearStream Energy Services Inc.^	23-Mar-26	8.000	7,004	7,004	
1,379,273	ClearStream Energy Services Inc.^	23-Mar-26	10.000	1,379	703	
2,848,000	Cogeco Cable Inc.	14-Feb-22	4.925	3,107	3,075	
3,648,000	Cogeco Cable Inc.	26-May-23	4.175	3,761	3,834	
2,213,000	Commerzbank AG	19-Sep-23	8.125	2,787	3,320	
799,000	Continental Resources	1-Jun-44	4.900	731	961	
13,330,000	Enbridge Inc.	24-May-19	1.992	13,359	13,370	
270,000	Enbridge Inc.	1-Oct-23	4.000	354	353	
1,243,000	Gaz Metro Inc.	25-May-20	1.520	1,239	1,225	
4,530,000	GE Capital Canada Funding Co.	26-Jan-22	4.600	4,937	4,881	
3,726,000	GE Capital Canada Funding Co.	6-Feb-23	2.611	3,907	3,867	
2,359,000	Heathrow Funding Ltd.	3-Jul-19	4.000	2,484	2,420	
343,000	Heathrow Funding Ltd.	17-Jun-23	3.000	351	348	
6,468,000	Honda Canada Finance Inc.	3-Dec-18	2.084	6,481	6,502	
2,942,000	Honda Canada Finance Inc.	19-Feb-19	2.502	2,982	2,974	
3,047,000	Honda Canada Finance Inc.	7-Jun-19	2.010	3,047	3,067	
316,000	Honda Canada Finance Inc.	12-Aug-19	1.631	317	314	
4,576,000	Honda Canada Finance Inc.	17-Apr-20	1.946	4,582	4,613	
7,236,000	Honda Canada Finance Inc.	18-Dec-20	1.740	7,240	7,253	
8,262,000	Hydro One Inc.	21-Mar-19	1.864	8,289	8,295	
5,821,000	Hydro One Inc.	18-Nov-19	1.480	5,829	5,761	
1,247,000	Hydro One Inc.	30-Apr-20	1.620	1,251	1,233	
8,990,000	Kraft Canada Inc.	6-Jul-20	2.464	8,990	9,128	
3,367,000	Kraft Canada Inc.	6-Jul-20	2.700	3,428	3,378	
1,469,000	Kreditanstalt fuer Wiederaufbau	28-Jan-20	1.375	1,473	1,456	
817,000	Magna International Inc.	15-Dec-22	3.100	846	829	
1,035,000	Manufacturers Life Insurance Co.	29-Nov-23	2.926	1,053	1,044	
674,000	Manufacturers Life Insurance Co.	21-Feb-24	2.811	683	679	
2,846,000	Manufacturers Life Insurance Co.	5-Jan-26	2.389	2,838	2,837	
3,200,000	Manufacturers Life Insurance Co.	22-Nov-27	3.181	3,304	3,268	
6,707,000	Met Life Global Funding	10-Apr-19	2.300	7,329	8,417	
1,703,000	Met Life Global Funding	16-Apr-19	2.682	1,724	1,717	
43,000	Met Life Global Funding	16-Apr-20	1.875	43	43	
2,043,000	Met Life Global Funding	11-Jun-20	3.027	2,110	2,076	
903,000	Met Life Global Funding	16-Apr-21	3.107	929	920	
6,477,000	National Bank of Canada	14-Jun-18	1.942	6,480	6,490	
1,130,000	National Grid Electricity Transmission PLC	25-Jan-18	2.276	1,133	1,131	
3,533,000	National Grid Electricity Transmission PLC	26-Nov-19	2.900	3,656	3,579	

VPI INCOME POOL

Schedule of Investments (continued)
(In thousands of dollars, except for unit amounts)

December 31, 2017

Number of units, shares or par value	Description	Maturity date	Coupon rate %	Average cost	Fair value	% of net assets
Corporate bonds (continued):						
6,740,000	Navient Corp.	25-Mar-21	5.875	8,446	8,751	
7,811,000	Navient Corp.	25-Jan-23	5.500	8,708	9,799	
2,714,000	Navient Corp.	1-Aug-33	5.625	3,056	2,984	
4,737,243	Postmedia Network Inc.	15-Jul-21	8.250	4,807	4,548	
2,219,000	Royal Bank of Canada	30-Mar-18	3.770	2,244	2,231	
18,656,000	Royal Bank of Canada	26-Apr-19	1.400	18,709	18,539	
5,149,000	Royal Bank of Canada	11-Feb-20	1.942	5,151	5,194	
23,342,000	Royal Bank of Canada	23-Mar-20	1.876	23,347	23,479	
930,000	Royal Bank of Canada	29-Jun-85	1.375	749	987	
1,310,000	Royal Bank of Scotland Group	28-May-24	5.125	1,419	1,743	
1,819,000	Shaw Communications Inc.	9-Nov-39	6.750	2,032	2,346	
493,000	SNC-Lavalin Group Inc.	3-Jul-19	6.190	565	520	
438,000	SNC-Lavalin Group Inc.	24-Nov-20	2.689	440	438	
890,000	Sobey's	8-Aug-18	3.520	899	898	
4,494,000	Sobey's	8-Aug-23	4.700	4,584	4,678	
2,381,000	Sobey's	29-Oct-35	6.060	2,411	2,494	
2,590,000	Sobey's	6-Oct-36	5.790	2,543	2,640	
1,160,000	Sobey's	7-Jun-40	6.640	1,211	1,301	
3,339,000	TechMediaNetwork Inc. ^	22-May-22	3.000	4,109	4,184	
3,922,000	TELUS Corp.	27-Mar-18	1.500	3,922	3,922	
21,224,000	Toronto Dominion Bank	28-Mar-18	2.124	21,314	21,254	
3,650,000	Toronto Dominion Bank	18-Feb-20	1.932	3,630	3,681	
1,535,000	Toronto Dominion Bank	2-Apr-20	1.693	1,540	1,518	
24,051,000	Toronto Dominion Bank	8-Jun-21	1.680	23,779	23,566	
7,372,000	TransCanada PipeLines Ltd.	15-May-67	3.626	8,661	8,504	
2,301,000	Videotron Ltd.	15-Jun-25	5.625	2,279	2,472	
823,000	Videotron Ltd.	15-Jan-26	5.750	884	880	
746,000	VW Credit Canada Inc.	4-Apr-18	1.600	715	746	
1,129,000	WTH Car Rental ULC	20-Aug-19	2.542	1,129	1,133	
1,527,027	Xplornet Communications Inc.	9-Sep-21	5.750	1,943	1,937	
5,169,000	Yellow Pages Digital & Media Solutions Ltd.	1-Nov-22	10.000	5,132	5,236	
855,000	Yellow Pages Digital & Media Solutions Ltd.	30-Nov-22	8.000	799	774	
				426,050	430,741	56.12
Mortgage-backed securities:						
8,756,000	First National Financial	1-Feb-22	1.700	8,075	7,964	
324,000	I.G. Investment Management Ltd.	1-Nov-18	2.050	149	148	
1,428,000	I.G. Investment Management Ltd.	1-Feb-20	1.420	644	645	
3,336,000	MCAP Service Corp.	1-Jul-20	1.670	2,640	2,638	
2,289,000	MCAP Service Corp.	1-Apr-21	1.800	1,603	1,615	
1,091,000	MCAP Service Corp.	1-Sep-21	1.670	877	885	
7,341,000	MCAP Service Corp.	1-Oct-21	1.570	6,126	6,146	
8,288,247	Merrill Lynch Financial Assets Inc.	1-Apr-19	1.590	6,982	6,922	
9,067,000	Merrill Lynch Financial Assets Inc.	1-Aug-19	1.750	5,839	5,859	
259,000	Merrill Lynch Financial Assets Inc.	1-Mar-20	1.350	153	153	
7,648,000	Merrill Lynch Financial Assets Inc.	1-Jun-20	1.420	5,156	5,166	
5,676,000	Merrill Lynch Financial Assets Inc.	1-Aug-20	1.620	3,969	4,028	
1,382,000	Merrill Lynch Financial Assets Inc.	7-May-21	6.673	422	408	
1,683,000	Merrill Lynch Financial Assets Inc.	1-Jun-21	1.670	1,232	1,247	
9,665,000	Merrill Lynch Financial Assets Inc.	1-May-22	1.520	8,738	8,797	
6,370,000	Merrill Lynch Financial Assets Inc.	1-Jun-22	1.520	5,944	5,973	
				58,549	58,594	7.63
Equities:						
Banks:						
405,200	Bank of Nova Scotia			22,428	32,871	
239,725	Canadian Imperial Bank of Commerce			21,760	29,376	
187,000	Wells Fargo & Co.			10,930	14,215	
				55,118	76,462	9.96

VPI INCOME POOL

Schedule of Investments (continued)
(In thousands of dollars, except for unit amounts)

December 31, 2017

Number of units, shares or par value	Description	Maturity date	Coupon rate %	Average cost	Fair value	% of net assets
Diversified financials:						
25,909	ClearStream Energy Services Inc.			15	2	—
Energy:						
1,912,039	Cenovus Energy Inc.			31,376	21,951	
3,292,147	Ensign Energy Services Inc.			25,242	21,300	
203,900	Royal Dutch Shell, Class B			14,276	17,043	
233,508	Total SA			15,918	16,173	
				86,812	76,467	9.96
Real estate:						
510,000	Firm Capital American Realty Partners Corp.			4,911	4,154	
1,260,322	Firm Capital Property Trust			5,757	8,696	
				10,668	12,850	1.67
Retailing:						
440,000	Bed Bath & Beyond Inc.			24,707	12,123	
598,000	Macy's Inc			24,809	18,874	
				49,516	30,997	4.04
Telecommunication services:						
333,000	Verizon Communications Inc.			19,828	22,084	2.88
Warrants:						
4,783	Xplornet Communications Inc.^	25-Oct-23		—	2,425	
3,349	Xplornet Communications Inc.^	20-Oct-18		—	127	
776	Xplornet Communications Inc.^	20-Oct-18		—	74	
				—	2,626	0.34
Summary:						
Short-term investments				47,901	47,901	6.24
Corporate Bonds				426,050	430,741	56.12
Mortgage-backed securities				58,549	58,594	7.63
Equities				221,957	221,488	28.85
				754,457	758,724	98.84
Transaction costs				(133)		
Total financial assets at FVTPL				754,324	758,724	98.84
Cash:						
Domestic				4,173	4,173	
Foreign				28	28	
Total cash				4,201	4,201	0.55
Forward currency contracts					1,844	0.24
Other assets less liabilities					2,805	0.37
Total net assets attributable to holders of redeemable units					\$ 767,574	100.00

^ Level 3 securities

VPI INCOME POOL

Schedule of Investments (continued)
(In thousands of dollars, except for unit amounts)

December 31, 2017

Forward currency contracts:

The Pool has the following forward currency contract outstanding as at December 31, 2017:

Currency to purchase	Amount	Fair value to purchase	Currency to deliver	Amount	Fair value to deliver	Unrealized gain (loss)	Expiry date
CAD	\$ 75,730	\$ 75,730	USD	\$ 59,027	\$ 73,886	\$ 1,844	March 2018

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

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

1. Reporting entity:

- (a) VPI Income Pool (the Pool) is an open-ended mutual fund trust, established on September 26, 2005 by declaration of trust under the laws of the Province of Ontario. As of March 2017, the registered office of the Pool is located at 300-175 Hargrave St., Winnipeg, Manitoba. The trustee of the Pool is RBC Investor Services Trust and the Manager of the Pool is Value Partners Investments Inc. (VPI or the Manager).

The Pool commenced operations on October 20, 2005 with one series of units: Series A. On July 3, 2007, the Pool began offering Series B and Series F units. On July 5, 2017, the Pool began offering Series O units.

The Pool's objective is to place a strong emphasis on avoiding material or long-term capital losses while investing in securities that provide a reasonable level of income and the potential for long-term capital growth. The Pool invests primarily in fixed income and equity securities that pay income.

- (b) Redeemable units issued and outstanding are considered to be capital of the Pool. The Pool's authorized capital consists of an unlimited number of units and series without par value. The number of outstanding units of each series is disclosed in the statements of financial position.

Series A units are subject to a negotiated sales commission payable by the investor at the time of purchase. Series B units are subject to a fixed sales commission payable by the Manager at the time of purchase. The investor is subject to a redemption fee if units are redeemed within three years of purchase. Series F units are only available to investors that have a fee-based account with a dealer that has signed a Series F agreement with the Manager. Series O units are available for investors who have, or whose dealer has, entered into an agreement directly with the Manager to purchase Series O units or if investors open discretionary investment management accounts with the Manager. Series O units have no sales charge.

Except for Series O units, each series of units pays its proportionate share of common expenses of the Pool, in addition to expenses that are unique to that series. Proportionate fund expenses for Series O, both common fund expenses, as well as expenses unique to Series O, are paid by the Manager. Distributions of each series may vary due to the differences in expenses between the series.

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

1. Reporting entity (continued):

- (c) Unitholders may redeem all or part of their units by delivering a written request to do so to the Manager or Trustee or to an investment dealer, securities dealer or mutual fund dealer for delivery to the Manager or Trustee. Units will be redeemed at the net asset value per unit as determined on the next valuation date. Requests for redemption received after 4:00 p.m., Toronto time, on any day are deemed to be received on the first business day following the date of the actual receipt.

2. Basis of preparation:

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) applicable to the preparation of annual financial statements.

The financial statements were authorized for issue by the Manager on behalf of the board of directors on March 5, 2018.

(a) Basis of measurement:

The financial statements have been prepared on an historical cost basis except for investments at fair value through profit or loss, which are measured at fair value.

(b) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Pool's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(c) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant judgments made by the Manager in preparing these financial statements is in determining the fair value of financial instruments not traded in an active market, if any, under IFRS 13 - *Fair Value Measurement* (IFRS 13).

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments:

(i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: fair value through profit or loss (FVTPL), available-for-sale, loans and receivables, held-to-maturity, and other financial liabilities. Financial instruments classified as FVTPL may either be held-for-trading or designated as FVTPL.

All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL, in which case transaction costs are expensed as incurred.

Financial instruments at FVTPL are recognized initially on the trade date, which is the date on which the Pool becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Pool derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position only when the Pool has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. At December 31, 2017 and December 31, 2016, no amounts have been offset in the statements of financial position.

The Pool has not classified any of its financial instruments as available-for-sale or held-to-maturity.

(ii) FVTPL:

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statements of comprehensive income in the period in which they occur. The Pool's derivative financial assets and derivative financial liabilities are classified as held-for-trading. The Pool's investments in securities are designated as FVTPL.

VPI INCOME POOL

Notes to Financial Statements (continued)
(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Pool uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Pool's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market, including derivative instruments, is determined using valuation techniques. Valuation techniques also include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

The Pool's accounting policies for measuring the fair value of investments are consistent with those used for measuring its net asset value for transactions with unitholders.

(iii) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of loans and receivables is at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate. The Pool classifies cash, accrued dividends receivable, accrued interest receivable for distribution purposes, subscriptions receivable, and due from broker as loans and receivables.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

VPI INCOME POOL

Notes to Financial Statements (continued)
(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

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

Cash includes cash on deposit with the custodian.

(iv) Other financial liabilities:

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Pool's other financial liabilities are comprised of accounts payable and accrued liabilities, redemptions payable, management fees payable, distributions payable, due to Manager and due to brokers.

(v) Forward currency contracts:

The value of a forward currency contract is the gain or loss that would be realized if, on the date that valuation is made, the positions were closed out. It is reflected in the statements of financial position as part of "forward currency contracts" and the change in value over the period is reflected in the statements of comprehensive income as part of "change in unrealized appreciation (depreciation) in forward currency contracts". When the forward currency contracts are closed out, gains and losses are realized and are included in the "net realized gain (loss) on forward currency contracts" in the statements of comprehensive income.

(b) Redeemable units:

The Pool classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Pool has multiple classes of redeemable units that do not have identical features and therefore, does not qualify as equity under International Accounting Standard (IAS) 32, *Financial Instruments - presentation* (IAS 32). The redeemable units, which are measured at the redemption amounts and are considered a residual amount of the net assets attributable to holders of redeemable units, provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Pool's valuation policies at each redemption date.

VPI INCOME POOL

Notes to Financial Statements (continued)
(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(c) Foreign currency:

The Pool's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign exchange gains and losses relating to cash are presented as 'Foreign exchange gain (loss) on cash' and those relating to other financial assets and liabilities are presented within 'Net realized gain' and 'Change in unrealized appreciation (depreciation)' in the statements of comprehensive income.

(d) Investment transactions and revenue recognition:

Interest income for distribution purposes from investments in bonds and short-term investments represents the coupon interest received by the Pool accounted for on an accrual basis. The Pool does not use the effective interest method to amortize premiums paid or discounts received on the purchase of fixed-income securities. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

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

Increase (decrease) in net assets attributable to holders of redeemable units, per unit in the statements of comprehensive income represents the net increase (decrease) in the net assets from operations for each series for the period divided by the weighted average units outstanding for each series for the period.

VPI INCOME POOL

Notes to Financial Statements (continued)
(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(f) Income taxes:

The Pool qualifies as a Mutual Fund Trust as defined in the *Income Tax Act* (Canada). Pursuant to the terms of the Declaration of Trust establishing the Pool, it is considered to distribute annually to the unitholders all of the net taxable income, including net realized gains on sale of investments, and such distributions are immediately reinvested in units of the Pool.

In general, the Pool is subject to income tax, however no income tax is payable on net income and/or net realized capital gains which are distributed to unitholders. In addition, income taxes payable on net realized capital gains is refundable on a formula basis when units of the Pool are redeemed.

Capital losses are available to be carried forward indefinitely and applied against future capital gains. Any non-capital losses that are realized in the taxation year 2006 and after may be carried forward for 20 years and applied against future income and capital gains.

(g) New standards and interpretations not yet adopted:

IFRS 9, *Financial Instruments* (IFRS 9) will replace IAS 39, *Financial Instruments - Recognition and Measurement* (IAS 39). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also includes guidance on the classification and measurement of financial liabilities. IFRS 9 is effective for fiscal years beginning on or after January 1, 2018.

The Pool plans to adopt the new standard on the required effective date. During 2017, the Pool has performed a high-level impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Pool in the future. Overall, the standard is not expected to have a material impact on the measurement basis of the financial assets held by the Pool since the majority of the financial assets are measured at fair value through profit or loss. No impact on the net assets attributable to holders of redeemable units and the results of the Pool is expected from the adoption of IFRS 9.

VPI INCOME POOL

Notes to Financial Statements (continued)
(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(i) Classification and measurement:

The Pool does not expect a significant impact on its financial position from applying the classification and measurement requirements of IFRS 9. The Pool expects to continue measuring at fair value all financial assets currently held at fair value. Debt securities are expected to be measured at FVTPL under IFRS 9 as the Pool does not expect to hold the assets to collect contractual cash flows.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Pool expects that these will continue to be measured at amortized cost under IFRS 9. However, the Pool will analyze the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortized cost measurement under IFRS 9.

(ii) Impairment:

IFRS 9 requires entities to record future expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. Given the fact that all investments are measured at FVTPL and the limited exposure of the Pool to credit risk from loans and trade receivables, this new standard will not have a significant impact on the financial statements.

(iii) Hedge accounting:

The Pool has not applied hedge accounting under IAS 39 and will not apply hedge accounting under IFRS 9. Therefore, no impact is expected from the adoption of IFRS 9.

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

4. Management fees and expenses:

Except for Series O units, the Manager of each series of units is entitled to a monthly management fee from the Pool based on a percentage of the net asset value of each series of units as of the close of business on each business day calculated at the following annual rates:

Series A	1.80%
Series B	2.00%
Series F	0.90%

No management fee is charged to the Pool with respect to Series O units. Instead, each investor negotiates a separate fee that is paid directly to the Manager.

Except for Series O units, in addition to the management fee, each series of units pays its proportionate share of common operating expenses of the Pool, in addition to expenses that are unique to that series. These expenses include, but are not limited to audit, legal and filing fees, custodial, recordkeeping and trustee fees, transfer agent fees, investor servicing costs, taxes, compensation and expenses of the Independent Review Committee, and costs of unitholder reports, financial reporting, prospectuses, regulatory filings, and other communications. Brokerage commissions and transaction costs for buying and selling investments for the Pool's portfolio are also paid by the Pool, as well as the costs and expenses related to holding any meeting convened by unitholders.

Proportionate fund expenses for Series O units, both common fund expenses, as well as expenses unique to Series O, are paid by the Manager.

The Manager absorbed a portion of the operating expenses (note 5) of the Pool during the year ended December 31, 2017.

5. Related party transactions:

Related party balances of the Pool as at December 31, 2017 and December 31, 2016 are as follows:

	2017	2016
Management fees payable	\$ 1,092	\$ 947
Due to Manager	4	—

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

5. Related party transactions (continued):

Related party transactions of the Pool for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Management fees	\$ 12,898	\$ 9,594
Absorbed expenses^	—	—

^ Absorbed expenses round to nil.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

As of December 31, 2017 and 2016, the Manager held the following number of units in the Pool:

	2017	2016
Series F	73,159	69,612
Series O	1	—

6. Brokerage commissions:

Commissions paid to brokers for portfolio transactions for the years ended December 31, 2017 and 2016 are disclosed in the statements of comprehensive income.

There were no soft dollar commissions paid during the years ended December 31, 2017 and 2016.

7. Income taxes:

As of December 31, 2017 and 2016, there were no capital or non-capital losses available for carry forward.

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

8. Financial risk management:

The investment activities of the Pool expose the Pool to various types of financial risks. The Manager seeks to minimize potential adverse effects of these risks on the Pool by contracting professional, experienced portfolio managers, by monitoring the Pool and market events on a daily basis, and by diversifying the investment portfolio within the parameters of the investment objective and strategy. The most significant risks include market risk (other price risk, interest rate risk and currency risk), credit risk and liquidity risk. These risks and related risk management practices employed by the Pool are discussed below:

(i) Other price risk:

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. The maximum risk resulting from financial instruments held by the Pool is determined by the fair value of the financial instruments. The portfolio manager moderates this risk through a careful selection of securities within specified parameters established for the Pool.

For the Pool, the most significant exposure to other price risk arises from investments in equity securities. The following table shows the exposure of the Pool to equity securities and indicates the impact on net assets if the prices of the equity securities on the respective stock exchanges increased or decreased by 5 percent, with all other variables held constant.

	Fair value of equities	% of net assets	Impact on net assets (\$)	Impact on net assets (%)
As at December 31, 2017	\$ 221,488	28.85%	\$ 11,074	1.44%
As at December 31, 2016	189,061	29.33%	9,453	1.47%

(ii) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments such as bonds. The Pool is exposed to this risk to the extent that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

8. Financial risk management (continued):

The tables below summarize the Pool's exposure to interest rate risk. They include the Pool's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

As at December 31, 2017	Less than 1 year	1 - 3 years	3 - 5 years	Greater than 5 years	Non- interest bearing	Total
Financial assets at FVTPL	\$ 174,938	\$ 172,441	\$ 103,260	\$ 86,597	\$ 221,488	\$ 758,724
Forward currency contracts	—	—	—	—	1,844	1,844

As at December 31, 2016	Less than 1 year	1 - 3 years	3 - 5 years	Greater than 5 years	Non- interest bearing	Total
Financial assets at FVTPL	\$ 42,740	\$ 152,650	\$ 98,628	\$ 142,495	\$ 189,061	\$ 625,574
Forward currency contracts	—	—	—	—	(243)	(243)

At December 31, 2017 and 2016, should interest rates have increased or decreased by 25 basis points, excluding cash and treasury bills and assuming a parallel shift in the yield curve, with all other variables held constant, net assets for each Pool would have approximately increased or decreased as indicated in the following table. The Pool's sensitivity to interest rates was estimated using the weighted average duration of the bond portfolio.

	Impact on net assets (\$)	Impact on net assets (%)
As at December 31, 2017	\$ 2,691	0.37%
As at December 31, 2016	2,258	0.35%

(iii) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pool. The Pool's greatest concentration of credit risk is in debt securities such as bonds. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of investments represents the maximum credit risk exposure as at December 31, 2017 and 2016.

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

8. Financial risk management (continued):

All transactions in listed securities are settled/paid 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 Fund may enter into forward currency contracts to buy and sell currencies for the purpose of settling foreign securities transactions. These are short-term spot settlements 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.

Debt securities in the Pool by credit rating are as follows:

As at December 31, 2017	% of debt securities	% of net assets
AAA	32.86%	22.99%
AA	11.27%	7.89%
A	27.75%	19.42%
BBB	12.65%	8.86%
BB	3.45%	2.41%
B	8.57%	6.00%
CCC	0.14%	0.10%
N/R	3.31%	2.32%
	100.00%	69.99%

As at December 31, 2016	% of debt securities	% of net assets
AAA	16.68%	11.30%
AA	25.98%	17.59%
A	8.79%	5.96%
BBB	11.16%	7.56%
BB	19.45%	13.17%
B	12.64%	8.56%
N/R	5.30%	3.59%
	100.00%	67.73%

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

8. Financial risk management (continued):

(iv) Liquidity risk:

The Pool is exposed to liquidity risk to the extent that it is subject to daily cash redemptions of redeemable units. Therefore, the Pool invests the majority of their assets in investments that are traded in an active market and can be readily disposed. In addition, the Pool retains sufficient cash positions to maintain liquidity.

(v) Currency risk:

The Pool uses the Canadian dollar as its functional and reporting currency. Currency risk is the risk that financial instruments which are denominated or exchanged in a currency other than the Canadian dollar, the Pool's reporting currency, will fluctuate due to changes in exchange rates. The Pool may enter into forward currency contracts to reduce its foreign currency exposure.

At December 31, 2017 and 2016, the Pool was exposed to the U.S dollar. The following tables illustrate the potential impact to the Pool's net assets, all other variables held constant, as a result of a 5 percent change in these currencies relative to the Canadian dollar and include the underlying principal of forward currency contracts, if any.

As at December 31, 2017	Foreign currencies (\$)	Forward currency contract	Net exposure	Impact on net assets (\$)	Impact on net assets (%)
Financial assets at FVTPL	\$ 175,298	\$ (73,958)	\$ 101,340	\$ 5,067	0.66%
Cash	28	—	28	1	0.00%
Other assets less liabilities	1,676	—	1,676	84	0.01%
	\$ 177,002	\$ (73,958)	\$ 103,044	\$ 5,152	0.67%

As at December 31, 2016	Foreign currencies (\$)	Forward currency contract	Net exposure	Impact on net assets (\$)	Impact on net assets (%)
Financial assets at FVTPL	\$ 208,937	\$ (91,813)	\$ 117,124	\$ 5,856	0.91%
Cash	3	—	3	—	0.00%
Other assets less liabilities	2,659	—	2,659	133	0.02%
	\$ 211,599	\$ (91,813)	\$ 119,786	\$ 5,989	0.93%

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

8. Financial risk management (continued):

(vi) Concentration risk:

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The market segments are represented as a percentage of financial assets at FVTPL. The following is a summary of the Pool's concentration risk:

Market segment	December 31, 2017	December 31, 2016
Long	%	%
Banks	10.08	12.87
Corporate bonds	56.78	61.12
Energy	10.08	10.21
Mortgage-backed securities	7.72	4.52
Retailing	4.09	5.37
Real estate	1.69	1.77
Short-term investments	6.31	4.14
Telecommunication services	2.91	—
Warrants	0.34	—
Total	100.00	100.00

9. Fair value disclosure:

(i) Valuation models:

The Pool's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy. The fair value of a financial instrument 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 Pool's financial instruments are recorded at fair value or at amounts that approximate fair value in the financial statements. The Pool classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

9. Fair value disclosure (continued):

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Manager has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Changes in valuation methods may result in transfers into, or out of, a financial instrument's assigned level.

(ii) Fair value hierarchy - financial instruments measured at fair value:

The following tables present information about the Pool's assets which are recorded at fair value on a recurring basis as of December 31, 2017 and 2016:

Financial assets and liabilities at fair value as at December 31, 2017:

Financial assets	Level 1	Level 2	Level 3	Total
Equities - long	\$ 214,708	\$ 4,154	\$ —	\$ 218,862
Corporate bonds	—	414,920	15,821	430,741
Mortgage-backed securities	—	58,594	—	58,594
Short-term investments	—	47,901	—	47,901
Warrants	—	—	2,626	2,626
Forward currency contract	—	1,844	—	1,844
	\$ 214,708	\$ 527,413	\$ 18,447	\$ 760,568

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

9. Fair value disclosure (continued):

Financial assets and liabilities at fair value as at December 31, 2016:

Financial assets	Level 1	Level 2	Level 3	Total
Equities - long	\$ 189,061	\$ —	\$ —	\$ 189,061
Corporate bonds	—	352,999	29,315	382,314
Mortgage-backed securities	—	28,283	—	28,283
Short-term investments	—	25,916	—	25,916
	\$ 189,061	\$ 407,198	\$ 29,315	\$ 625,574

Financial liabilities	Level 1	Level 2	Level 3	Total
Forward currency contract	\$ —	\$ (243)	\$ —	\$ (243)
	\$ —	\$ (243)	\$ —	\$ (243)

During the years ended December 31, 2017, \$7,966 (2016 - \$4,171) was transferred from level 3 to level 2 and \$703 (2016 - nil) was transferred from level 2 to level 3. The financial instruments not measured at FVTPL are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.

Level 3 securities have been valued based upon third party broker quotes provided without a range.

VPI INCOME POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

9. Fair value disclosure (continued):

Reconciliation of Level 3:

For the year ended December 31, 2017:

	Balance at December 31, 2016	Purchases	Sales	Net transfers In (out)	Realized gain (loss)	Unrealized gain (loss)	Balance at December 31, 2017
Corporate bonds	\$ 29,315	\$ 393	\$ (6,716)	\$ (7,263)	\$ 210	\$ (118)	\$ 15,821
Warrants	—	—	—	—	—	2,626	2,626
	\$ 29,315	\$ 393	\$ (6,716)	\$ (7,263)	\$ 210	\$ 2,508	\$ 18,447

For the year ended December 31, 2016:

	Balance at December 31, 2015	Purchases	Sales	Net transfers In (out)	Realized gain (loss)	Unrealized gain (loss)	Balance at December 31, 2016
Corporate bonds	\$ 24,547	\$ 15,337	\$ (4,671)	\$ (4,171)	\$ (254)	\$ (1,473)	\$ 29,315

The change in unrealized gain related to Level 3 investments held at December 31, 2017 was \$3,981 (2016 - change in unrealized loss of \$3,120).