VPI MORTGAGE POOL

ANNUAL FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

MANAGER
VALUE PARTNERS INVESTMENTS INC.

PORTFOLIO MANAGER
HSBC GLOBAL ASSET MANAGEMENT (CANADA) LIMITED

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 Mortgage Pool

We have audited the accompanying financial statements of VPI Mortgage Pool which comprise the statements of financial position as at December 31, 2017 and 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 Mortgage 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.

KPMG LLP

Chartered Professional Accountants

March 5, 2018
Winnipeg, Canada

VPI MORTGAGE POOL

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

As at	December 31, 2017	December 31, 2016
Assets		
Financial assets at fair value through profit or loss	$ 41,389	$ 32,562
Cash	1,797	1,104
Due from Manager (note 5)	6	–
Subscriptions receivable	92	181
	$ 43,284	$ 33,847
Liabilities		
Accounts payable and accrued liabilities	$ 41	$ 35
Redemptions payable	–	16
Management fees payable (notes 4 and 5)	29	23
Distributions payable	–	15
	70	89
Net assets attributable to holders of redeemable units	$ 43,214	$ 33,758
Net assets attributable to holders of redeemable units per series:		
Series A	$ 28,808	$ 24,165
Series F	14,406	9,593
Series O^	–	–
Net assets attributable to holders of redeemable units per unit:		
Series A	$ 9.86	$ 9.98
Series F	9.71	9.88
Series O	9.92	–
Number of redeemable units outstanding:		
Series A	2,921	2,421
Series F	1,483	970
Series O^	–	–

^ Rounds to nil.

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

VPI MORTGAGE 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	$ 877	$ 589
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss:		
Net realized loss on sale of investments	(52)	(10)
Change in unrealized appreciation (depreciation) in value of investments	(461)	145
	364	724
Expenses:		
Administration	97	96
Audit fees	9	8
Independent review committee fees	7	7
Security holder reporting costs	21	13
Custodian fees	4	5
Filing fees	19	15
Legal fees	4	7
Management fees (notes 4 and 5)	318	205
Registered plan fees	1	–
Trustee fees	5	5
	485	361
Absorbed expenses (notes 4 and 5)	(91)	(111)
	394	250
Increase (decrease) in net assets attributable to holders of redeemable units	$ (30)	$ 474
Increase (decrease) in net assets attributable to holders of redeemable units per series:		
Series A	$ (50)	$ 321
Series F	20	153
Series O^	–	–
Increase (decrease) in net assets attributable to holders of redeemable units per unit:		
Series A	$ (0.02)	$ 0.19
Series F	0.02	0.24
Series O^	–	–

^ Rounds to nil.

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

VPI MORTGAGE POOL

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

Years ended December 31, 2017 and 2016

	Series A		Series F		Series O		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Net assets attributable to holders of redeemable units, beginning of year	$ 24,165	$ 16,409	$ 9,593	$ 5,208	$ –	$ –	$ 33,758	$ 21,617
Increase (decrease) in net assets attributable to holders of redeemable units	(50)	321	20	153	–	–	(30)	474
Redeemable unit transactions:								
Proceeds from redeemable units issued	25,555	17,886	16,681	6,389	–	–	42,236	24,275
Reinvestment of distributions to holders of redeemable units	282	235	257	135	–	–	539	370
Redemption of redeemable units	(20,906)	(10,478)	(11,876)	(2,153)	–	–	(32,782)	(12,631)
	4,931	7,643	5,062	4,371	–	–	9,993	12,014
Distributions to holders of redeemable shares:								
Net investment income	(226)	(208)	(262)	(139)	–	–	(488)	(347)
Net realized gain on investments	(12)	–	(7)	–	–	–	(19)	–
Total distributions paid to holders of redeemable units	(238)	(208)	(269)	(139)	–	–	(507)	(347)
Net increase in net assets attributable to holders of redeemable units	4,643	7,756	4,813	4,385	–	–	9,456	12,141
Net assets, attributable to holders of redeemable units, end of year	$ 28,808	$ 24,165	$ 14,406	$ 9,593	$ –	$ –	$ 43,214	$ 33,758
Increase (decrease) in redeemable units outstanding:								
Beginning of year	2,421	1,652	970	528	–	–	3,391	2,180
Issued	2,577	1,800	1,700	646	–	–	4,277	2,446
Issued on reinvestment of distributions	28	24	26	14	–	–	54	38
Redeemed	(2,105)	(1,055)	(1,213)	(218)	–	–	(3,318)	(1,273)
Redeemable units outstanding, end of year	2,921	2,421	1,483	970	–	–	4,404	3,391
Weighted average units outstanding, during the year	2,425	1,658	1,312	645	1	–		

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

VPI MORTGAGE POOL

Statements of Cash Flows
(In thousands of dollars, except for unit amounts)

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from (used in) operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units	$ (30)	$ 474
Adjustments for:		
Net realized loss on sale of investments	52	10
Change in unrealized depreciation (appreciation) in value of investments	461	(145)
Purchases of investments	(28,689)	(18,599)
Proceeds from sale of investments	19,349	7,529
Due from Manager	(6)	–
Management fees payable	6	7
Accounts payable and accrued liabilities	6	1
Net cash used in operating activities	(8,851)	(10,723)
Cash flows from (used in) financing activities:		
Distributions paid to holders of redeemable units, net of reinvested distributions	17	37
Proceeds from redeemable units issued	40,775	24,123
Redemption of redeemable units	(31,248)	(12,618)
Net cash from financing activities	9,544	11,542
Net increase in cash	693	819
Cash, beginning of year	1,104	285
Cash, end of year	$ 1,797	$ 1,104
Supplementary information:		
Interest received	$ 877	$ 589

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

VPI MORTGAGE POOL

Schedule of Investment Portfolio
(In thousands of dollars, except for unit amounts)

December 31, 2017

Number of units, shares or par value	Description	Average cost	Fair value	% of net assets
Mutual Fund:				
3,916,126	HSBC Mortgage Fund, Institutional Series	$ 41,751	$ 41,389	
Total financial assets at FVTPL (see Schedule 1)		41,751	41,389	95.78
Cash:				
Domestic		1,797	1,797	4.16
Total investments		43,548	43,186	99.94
Other assets less liabilities			28	0.06
Total net assets attributable to holders of redeemable units			$ 43,214	100.00

Schedule 1 - Asset Composition of Underlying Fund
December 31, 2017

As at December 31, 2017, 95.78 percent of the net assets of the Pool were invested in HSBC Mortgage Fund Institutional Series units (the “Underlying Fund”). As a result, the major asset classes in which the Underlying Fund was invested at the end of the period are indicated below.

Description	Percentage
Residential mortgages	69.2%
Bonds	20.9%
Cash and equivalents	6.6%
Mortgage-backed securities	2.0%
Other assets less liabilities	1.3%
Total	100.0%

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

1. Reporting entity:

(a) VPI Mortgage Pool (the Pool) is an open-ended mutual fund trust, established on October 30, 2012 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 1, 2007 with two series of units: Series A and Series F. On July 5, 2017, the Pool began offering Series O units.

The Pool's objective is to seek to earn a high level of income while protecting invested capital primarily through investments with exposure to residential first mortgages on property in Canada and other debt obligations. It invests in one or more underlying mutual funds and other debt obligations to achieve this objective.

(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 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.

(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).

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 statement 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.

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

3. Significant accounting policies (continued):

(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.

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.

3. Significant accounting policies (continued):

(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, due from managerand subscriptions receivable 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.

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 and distributions payable.

3. Significant accounting policies (continued):

(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.

(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.

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 will 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.

3. Significant accounting policies (continued):

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

(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.

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.

(In thousands of dollars, except for unit amounts)

4. Management fees and expenses:

Except for Series O units, the Manager of the Pool is entitled to a monthly management fee from each series of units 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	1.00%
Series F	0.50%

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 of the Pool during the years ended December 31, 2017 and 2016 (note 5). As per the prospectus, the Manager may discontinue absorbing operating expenses at any time.

5. Related party transactions:

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

	2017	2016
Management fees payable	$ 29	$ 23
Due from Manager	6	–

(In thousands of dollars, except for unit amounts)

5. Related party transactions (continued):

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

	2017	2016
Management fees	$ 318	$ 205
Absorbed expenses	91	111

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 or parent company of the Manager held the following number of units in the Pool:

	2017	2016
Series F	169,889	166,220
Series O	1	–

6. Brokerage commissions:

No commission was paid to brokers for portfolio transactions for the years ended December 31, 2017 and 2016.

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 are no capital or non-capital losses available for carry forward.

(In thousands of dollars, except for unit amounts)

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. As of December 31, 2017 and 2016, the Pool and the Underlying Fund did not invest in equity securities and therefore, the Pool is not subject to a significant amount of other price risk.

(ii) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments such as bonds and mortgages. Cash, short term investments and other money market instruments are short term in nature and are not generally subject to significant amounts of interest rate risk.

As of December 31, 2017 and 2016, the Pool does not directly hold any interest-bearing financial instruments such as bonds or mortgages. The Pool is indirectly exposed to interest rate risk to the extent that the value of interest-bearing financial instruments in the Underlying Fund will fluctuate due to changes in the prevailing levels of interest rates. The table below summarizes the Pool's indirect exposure to interest rate risk through its investment in the Underlying Fund, 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	$ 11,816	$ 17,419	$ 10,409	$ 1,577	$ 168	$ 41,389

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	$ 6,836	$ 11,937	$ 10,293	$ 3,424	$ 72	$ 32,562

8. Financial risk management (continued):

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 constants, 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.

(In thousands of dollars)	Impact on net assets ($)	Impact on net assets (%)
As at December 31, 2017	$ 134	0.32%
As at December 31, 2016	88	0.26%

(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. As at December 31, 2017 and 2016, the Pool did not directly hold any debt securities. However, the Pool is indirectly exposed to credit risk to the extent that the value of debt securities in the Underlying Fund will fluctuate due to changes in the prevailing levels of the interest rates.

The Pool's exposure to debt securities by credit rating are as follows:

December 31, 2017	% of debt securities	% of net assets
AAA	10.1%	2.8%
AA	22.4%	6.3%
A	32.0%	9.0%
BBB	30.7%	8.6%
N/R	4.8%	1.3%
	100.0%	28.0%

(In thousands of dollars, except for unit amounts)

8. Financial risk management (continued):

December 31, 2016	% of debt securities	% of net assets
AAA	15.7%	4.7%
AA	31.7%	9.5%
A	18.6%	5.5%
BBB	30.6%	9.1%
N/R	3.4%	1.0%
	100.0%	29.8%

(iv) Liquidity risk:

The Pool is exposed to liquidity risk to the extent that it is subject to daily cash redemptions of redeemable units. The Pool invests primarily in the Underlying Fund which invests primarily in mortgages that have repurchase guarantees provided by HSBC Bank Canada under certain circumstances. In addition, the Pool retains sufficient cash positions to maintain liquidity. As of December 31, 2017 and 2016, the Pool did not have significant exposure to liquidity risk.

(v) Currency risk:

The Pool uses the Canadian dollar as its functional and reporting currency. Currency risk is the risk that the value of monetary assets and liabilities denominated in currencies other than the Canadian dollar (the functional currency of the Pool), will fluctuate due to changes in exchange rates. As at December 31, 2017 and 2016, the Pool held no significant financial instruments denominated in foreign currencies.

(In thousands of dollars, except for unit amounts)

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 Long	December 31, 2017	December 31, 2016
	%	%
Short-term investments	6.70	10.43
Federal bonds	0.85	0.87
Provincial bonds	0.91	0.84
Corporate bonds	19.41	16.72
Mortgages	70.08	69.02
Mortgage-backed securities	2.05	2.12
	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:

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.

(In thousands of dollars, except for unit amounts)

9. Fair value disclosure (continued):

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 table presents 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 at fair value as at December 31, 2017:

	Level 1	Level 2	Level 3	Total
Fund - long	$ 41,389	$ –	$ –	$ 41,389

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

	Level 1	Level 2	Level 3	Total
Fund - long	$ 32,562	$ –	$ –	$ 32,562

During the years ended December 31, 2017 and 2016, there were no transfers between levels.

10. Investments with structured entities:

The Pool has determined that the Underlying Fund in which it invests is an unconsolidated structured entity. This represents a significant judgment by the Pool as decision making about the Underlying Fund's investing activities are not governed by voting rights held by the Pool and other investors. The table below describes the types of structured entities that the Pool does not consolidate, but in which it holds an interest.

Entity	Nature and purpose	Interest held by the Pool
Investment fund	To manage assets on behalf of third party investors and generate fees for the investment manager These vehicles are financed through the issue of units to investors	Investment in units issued by the Underlying Fund

The change in fair value of the Underlying Fund is included in the statements of comprehensive income in 'Change in unrealized appreciation (depreciation) in value of investments'.

The table below sets out the interests held by the Pool in unconsolidated structured entities. The maximum exposure to loss is the carrying amounts of the financial assets held.

December 31, 2017			
Fund	Number of underlying funds held	Total net assets of Underlying Fund	Carrying amount
VPI Mortgage Pool	1	$ 2,412,815	$ 41,389

Underlying Fund	Principal Place of business	Country of domicile	Carrying amount included in statement of financial position
HSBC Mortgage Fund, Institutional Series	Canada	Canada	$ 41,389

10. Investments with structured entities (continued):

December 31, 2016			
Fund	Number of underlying funds held	Total net assets of Underlying Fund	Carrying amount
VPI Mortgage Pool	1	$ 2,484,720	$ 32,562

Underlying Fund	Principal Place of business	Country of domicile	Carrying amount included in statement of financial position
HSBC Mortgage Fund, Institutional Series	Canada	Canada	$ 32,562

During 2017 and 2016, the Pool did not provide financial support to unconsolidated structured entities and has no intention of providing financial or other support in the future. The Pool can redeem their units in the above Underlying Fund at any time, subject to sufficient liquidity.