

**Unaudited Financial Statements of**

**CYMBRIA CORPORATION**

*Three months and six months ended June 30, 2018*

**CYMBRIA<sup>®</sup>**

# CYMBRIA CORPORATION

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

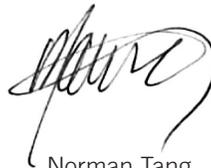
The accompanying unaudited condensed interim Financial Statements have been prepared by the Manager, EdgePoint Investment Group Inc., on behalf of Cymbria Corporation ("Cymbria"). Management is responsible for the information and representations contained in these Financial Statements.

Management has maintained appropriate processes to ensure that relevant and reliable financial information is produced. The unaudited condensed interim Financial Statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts based on estimates and assumptions. The significant accounting policies that management believes are appropriate for Cymbria are described in Note 3 to the unaudited condensed interim Financial Statements.

The Board of Directors is responsible for reviewing and approving Cymbria's unaudited condensed interim Financial Statements, overseeing management's performance of its financial reporting responsibilities and engaging the independent auditors. The Board of Directors is composed of three members who are independent of management. For all share classes of Cymbria, the unaudited condensed interim Financial Statements have been reviewed and approved by the Board of Directors.



Patrick Farmer  
Chairman  
August 7, 2018



Norman Tang  
Chief Financial Officer  
August 7, 2018

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## NOTICE TO SHAREHOLDERS

Cymbria's Board of Directors, appoints independent auditors to audit Cymbria's annual Financial Statements. Under Canadian securities laws (National Instrument 51-102), if an auditor has not reviewed the interim Financial Statements, this must be disclosed in an accompanying notice.

Cymbria's independent auditor has not performed a review of these condensed interim Financial Statements in accordance with the standards established by the Chartered Professional Accountants of Canada.

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**CYMBRIA CORPORATION**

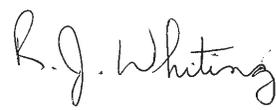
Statements of Financial Position (Unaudited)  
(in '000s except per share amounts and number of shares)  
As at June 30, 2018 and December 31, 2017

	June 30, 2018	December 31, 2017 (Audited)
<b>Assets</b>		
Investments	\$ 881,936	\$ 807,555
EdgePoint Wealth Management Inc.	223,086	185,941
Foreign exchange forward contracts	558	957
Total financial assets at fair value through profit or loss	1,105,580	994,453
Cash and cash equivalents	40,059	68,223
Receivable for investments sold	1,872	10
Dividends receivable	1,098	355
<b>Total Assets</b>	<b>\$ 1,148,609</b>	<b>\$ 1,063,041</b>
<b>Liabilities</b>		
Accrued liabilities	\$ 33	\$ 95
Payable for investments purchased	5,794	933
Foreign exchange forward contracts	196	-
Income taxes payable	3,233	2,186
Total current liabilities	9,256	3,214
Deferred share unit plan liability (Note 7)	942	756
Deferred income tax liability	44,240	43,538
<b>Total Liabilities</b>	<b>\$ 54,438</b>	<b>\$ 47,508</b>
<b>Shareholders' equity</b>		
Share capital (Note 5)	\$ 220,034	\$ 220,034
Retained earnings (Note 6)	874,137	795,499
<b>Total Shareholders' equity</b>	<b>\$ 1,094,171</b>	<b>\$ 1,015,533</b>
<b>Shareholders' equity</b>		
Common stock	\$ -	\$ -
Class A	687,931	627,136
Class J	406,240	388,397
<b>Number of shares outstanding (Note 5)</b>		
Class A	14,735,831	14,474,051
Class J	7,918,677	8,156,427
<b>Total shareholders' equity per share</b>		
Class A	\$ 46.68	\$ 43.33
Class J	\$ 51.30	\$ 47.62

The accompanying notes are an integral part of these interim Financial Statements.

ON BEHALF OF THE BOARD:

  
\_\_\_\_\_  
Reena Carter, Director

  
\_\_\_\_\_  
Richard Whiting, Director

**CYMBRIA CORPORATION**

Statements of Comprehensive Income (Unaudited)  
(in '000s except per share amounts)  
Three months and six months ended June 30, 2018 and 2017

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
<b>Income</b>				
Dividends from EdgePoint Wealth Management Inc.	\$ 6,825	\$ 5,175	\$ 6,825	\$ 5,175
Dividends	3,420	3,607	6,529	5,754
Interest for distribution purposes	96	41	248	75
Foreign currency gain (loss) on cash and other net assets	176	(74)	179	(63)
Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss:				
Net realized gain (loss) on investments	31,807	9,743	77,353	42,090
Net realized gain (loss) on foreign exchange forward contracts	(1,045)	(1,867)	(1,392)	(654)
Change in unrealized appreciation (depreciation) on investments	15,825	64,155	6,271	61,103
Change in unrealized appreciation (depreciation) on foreign exchange forward contracts	120	5,284	(596)	5,291
<b>Total Income</b>	<b>\$ 57,224</b>	<b>\$ 86,064</b>	<b>\$ 95,417</b>	<b>\$ 118,771</b>
<b>Expenses (Note 8)</b>				
Management fees	\$ 1,857	\$ 1,615	\$ 3,633	\$ 3,153
Operating expenses	393	487	804	807
Investment research and portfolio maintenance	161	94	278	185
Interest Expense (Note 9)	85	–	167	–
Harmonized Sales Tax	313	278	613	535
Net Withholding tax	540	710	935	915
Transaction costs	136	103	320	230
<b>Total Expenses</b>	<b>\$ 3,485</b>	<b>\$ 3,287</b>	<b>\$ 6,750</b>	<b>\$ 5,825</b>
<b>Profit for the period before taxes</b>	<b>\$ 53,739</b>	<b>\$ 82,777</b>	<b>\$ 88,667</b>	<b>\$ 112,946</b>
<b>Income taxes (recovery)</b>				
Current	\$ 3,664	\$ 541	\$ 9,326	\$ 4,935
Deferred	2,081	9,171	703	8,751
<b>Total Income taxes</b>	<b>\$ 5,745</b>	<b>\$ 9,712</b>	<b>\$ 10,029</b>	<b>\$ 13,686</b>
<b>Net income</b>	<b>\$ 47,994</b>	<b>\$ 73,065</b>	<b>\$ 78,638</b>	<b>\$ 99,260</b>
<b>Net income, by class</b>				
Class A	\$ 29,521	\$ 44,582	\$ 48,237	\$ 60,038
Class J	\$ 18,473	\$ 28,483	\$ 30,401	\$ 39,222
<b>Net income, per share</b>				
Class A	\$ 2.03	\$ 3.10	\$ 3.33	\$ 4.17
Class J	\$ 2.27	\$ 3.46	\$ 3.74	\$ 4.77

The accompanying notes are an integral part of these interim Financial Statements.

**CYMBRIA CORPORATION**

Statements of Changes in Equity (Unaudited)

(in '000s)

Six months ended June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>Class A:</b>		
Shareholders' equity, beginning of the period	\$ 627,136	\$ 508,138
Net income, by class	48,237	60,038
Capital transactions:		
Class J to Class A share exchanges	2,457	52
Cumulative surplus on Class J to Class A share exchanges	(79)	(2)
Surplus	10,180	163
	60,795	60,251
Shareholders' equity, end of the period	\$ 687,931	\$ 568,389
<b>Class J:</b>		
Shareholders' equity, beginning of the period	\$ 388,397	\$ 318,538
Net income, by class	30,401	39,222
Capital transactions:		
Class J to Class A share exchanges	(2,378)	(50)
Surplus	(10,180)	(163)
	17,843	39,009
Shareholders' equity, end of the period	\$ 406,240	\$ 357,547

The accompanying notes are an integral part of these interim Financial Statements.

**CYMBRIA CORPORATION**

Statements of Cash Flows (Unaudited)  
(in '000s)  
Six months ended June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>Cash Flow from Operating Activities</b>		
Net income	\$ 78,638	\$ 99,260
Adjustments for:		
Foreign currency (gain) loss on cash and other net assets	(179)	63
Net realized (gain) loss on investments	(77,353)	(42,090)
Net realized (gain) loss on foreign exchange forward contracts	1,392	654
Change in unrealized (appreciation) depreciation on investments	(6,271)	(61,103)
Change in unrealized (appreciation) depreciation on foreign exchange forward contracts	596	(5,291)
(Increase) decrease in dividends receivable	(743)	(302)
Increase (decrease) in accrued liabilities and other payables	1,171	945
Increase (decrease) in deferred income tax liability	703	8,751
Purchase of investments	(224,253)	(163,821)
Proceeds from sales of investments	197,956	136,930
<b>Net Cash Generated (Used) by Operating Activities</b>	<b>\$ (28,343)</b>	<b>\$ (26,004)</b>
Net increase (decrease) in cash and cash equivalents	\$ (28,343)	\$ (26,004)
Foreign currency gain (loss) on cash and other net assets	179	(63)
Cash and cash equivalents, beginning of the period	68,223	101,596
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 40,059</b>	<b>\$ 75,529</b>
Cash and cash equivalents comprise:		
Cash at bank	\$ 40,059	\$ 75,529
	\$ 40,059	\$ 75,529
Interest received, net of withholding tax	\$ 248	\$ 75
Dividends received, net of withholding tax	\$ 11,676	\$ 9,712
Interest paid	\$ (179)	\$ -
Income taxes paid	\$ (8,280)	\$ (4,625)

The accompanying notes are an integral part of these interim Financial Statements.

# CYMBRIA CORPORATION

Summary of Investment Portfolio  
(in '000s except number of shares/units)  
As at June 30, 2018

Number of shares/units	Security	Average cost	Fair value	% of shareholders' equity
<b>Equities</b>				
<b>Banks</b>				
618,033	Wells Fargo & Co.	\$ 32,480	\$ 45,045	4.1
		32,480	45,045	4.1
<b>Consumer Discretionary</b>				
869,134	Subaru Corp.	38,730	33,283	3.0
	Others	27,699	23,804	2.2
		66,429	57,087	5.2
<b>Consumer Staples</b>				
468,141	Shiseido Co. Ltd.	11,248	48,906	4.5
388,459	Unilever N.V.	22,447	28,498	2.6
	Others	12,640	14,495	1.3
		46,335	91,899	8.4
<b>Diversified Financials</b>				
279,585	EdgePoint Wealth Management Inc.	510	223,086	20.4
135,949	Affiliated Managers Group, Inc.	26,271	26,571	2.4
65	Berkshire Hathaway Inc., class A	19,395	24,101	2.2
49,517	Berkshire Hathaway Inc., class B	8,893	12,151	1.1
		55,069	285,909	26.1
<b>Energy</b>				
944,249	PrairieSky Royalty Ltd.	27,642	24,503	2.2
	Others	4,463	5,050	0.5
		32,105	29,553	2.7
<b>Health Care</b>				
	Others	32,246	39,858	3.6
		32,246	39,858	3.6
<b>Industrials</b>				
485,189	CSX Corp.	30,859	40,682	3.7
555,032	Generac Holdings Inc.	28,484	37,746	3.5
691,858	Flowserve Corp.	41,076	36,746	3.4
220,318	The Middleby Corp.	33,693	30,244	2.8
162,528	WABCO Holdings Inc.	15,195	25,003	2.3
	Others	90,575	98,699	9.0
		239,882	269,120	24.6
<b>Information Technology</b>				
255,309	TE Connectivity Ltd.	17,107	30,228	2.8
	Others	52,485	67,364	6.0
		69,592	97,592	8.9
<b>Insurance</b>				
2,423,660	Echelon Financial Holdings Inc.	33,409	28,938	2.6
	Others	40,946	44,477	4.1
		74,355	73,415	6.7
<b>Materials</b>				
	Others	41,827	42,247	3.9
		41,827	42,247	3.9
<b>Real Estate</b>				
	Others	57,275	53,448	4.9
		57,275	53,448	4.9
<b>Telecommunication Services</b>				
	Others	20,599	18,343	1.7
		20,599	18,343	1.7
<b>Total Equities</b>		\$ 768,194	\$ 1,103,516	100.9
<b>Options</b>		2,140	1,506	0.1
<b>Foreign exchange forward contracts</b>			\$ 362	0.0
Adjustment for transaction costs		(724)		
<b>Total financial assets at fair value through profit or loss</b>		\$ 768,886	\$ 1,105,384	101.0

**1. The Corporation:**

Cymbria Corporation (“Cymbria”) is an investment company incorporated on September 4, 2008, under the laws of the Province of Ontario. It commenced operations and was listed on the Toronto Stock Exchange on November 4, 2008. EdgePoint Investment Group Inc. (the “Manager”) provides senior management to Cymbria and is also its Investment Advisor.

The registered office of Cymbria is located at 150 Bloor St. W., Suite 500, Toronto, Ontario, M5S 2X9, Canada.

The investment objective of Cymbria is to provide long-term capital appreciation through a concentrated portfolio of global companies and an investment in EdgePoint Wealth Management Inc. (“EdgePoint”), which offers mutual funds, institutional and other investments through financial advisors. The portfolio management team looks for global companies that it believes have strong competitive positions, long-term growth prospects and are run by competent management teams. The portfolio management team endeavours to acquire ownership stakes in these companies at prices below its assessment of each company’s true value.

**2. Basis of preparation:**

(a) Statement of compliance:

These unaudited condensed interim financial statements of Cymbria have been prepared in compliance with International Accounting Standard 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards (“IFRS”). Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed.

These unaudited condensed interim financial statements were authorized for issue by the Board of Directors on August 7, 2018.

**3. Significant accounting policies:**

The accounting policies applied by Cymbria in these condensed interim financial statements are the same as those applied by Cymbria in its financial statements for the year ended December 31, 2017, which were prepared in accordance with IFRS, except for the adoption of new standards effective as of January 1, 2018. Cymbria has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these amendments apply for the first time in 2018, they do not have a material impact on the interim condensed financial statements of Cymbria. The nature and the impact of the adoption of new standards is described below:

IFRS 9, Financial Instruments, deals with the recognition, derecognition, classification and measurement of financial

instruments. IFRS 9 contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset’s contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the previous IAS 39 categories of held-to-maturity, available-for-sale, and loans and receivables. Cymbria’s financial instruments previously classified as held-for-trading are now classified as fair value through profit or loss (“FVTPL”). There is no change in the recognition or measurement of these financial instruments. Cymbria’s financial instruments previously measured at amortized cost meet the solely principal and interest criterion and accordingly, are continued to be measured at amortized cost under IFRS 9.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of Cymbria’s financial assets as at January 1, 2018:

<b>Financial Asset</b>	<b>IAS 39</b>	<b>IFRS 9</b>
Investments	FVTPL	FVTPL
EdgePoint Wealth Management Inc.	FVTPL	FVTPL
Foreign exchange forward contracts	Held-for-trading (FVTPL)	FVTPL
Cash and cash equivalents	Amortized cost	Amortized cost
Receivable for investments sold	Amortized cost	Amortized cost
Dividends receivable	Amortized cost	Amortized cost
Income tax recovery	Amortized cost	Amortized cost

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively and management has taken an exemption not to restate comparative information for prior periods. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39. The assessment made by management on the date of initial application includes the determination of the business model within which a financial asset is held and the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

The disclosures contained in these unaudited interim financial statements do not include all the requirements of IFRS for annual financial statements. The unaudited interim financial statements should be read in conjunction with the audited annual financial statements for the year ended December 31, 2017. The unaudited interim financial statements are based on accounting policies, as described in Note 3 to the 2017 audited annual financial statements.

**4. Critical accounting estimates and judgments:**

In the preparation of these condensed interim financial statements, the Manager has made judgments, estimates and assumptions that affect the application of Cymbria's accounting policies and the reported amounts of assets, liabilities, income and expenses. There have been no changes in the critical accounting estimates and judgments which were set out in detail in Note 4 of Cymbria's financial statements for the year ended December 31, 2017.

**5. Share capital:**

Cymbria has authorized an unlimited number of Class A non-voting, non-redeemable shares, an unlimited number of Class J non-voting, non-redeemable shares and an unlimited number of common shares. Share capital consists of the following:

June 30, 2018	Number of shares	Amount ('000s)
Common shares outstanding, June 30, 2018	100	—*
Class A shares issued:		
Shares outstanding, January 1, 2018	14,474,051	\$ 138,470
Class A shares issued in exchange for Class J shares	261,780	2,457
Contributed Surplus		(79)
Class A shares outstanding, June 30, 2018	14,735,831	\$ 140,848
Class J shares issued:		
Shares outstanding, January 1, 2018	8,156,427	\$ 81,564
Class J shares exchanged for Class A shares	(237,750)	(2,378)
Class J shares outstanding, June 30, 2018	7,918,677	\$ 79,186
<b>Total</b>		<b>\$ 220,034</b>

\*Amount of common shares outstanding is \$100.

June 30, 2017	Number of shares	Amount ('000s)
Common shares outstanding, June 30, 2017	100	—*
Class A shares issued:		
Shares outstanding, January 1, 2017	14,363,241	\$ 137,462
Class A shares issued in exchange for Class J shares	5,501	52
Contributed Surplus		(2)
Class A shares outstanding, June 30, 2017	14,404,727	\$ 137,512
Class J shares issued:		
Shares outstanding, January 1, 2017	8,257,157	\$ 82,572
Class J shares exchanged for Class A shares	(5,005)	(50)
Class J shares outstanding, June 30, 2017	8,219,202	\$ 82,522
<b>Total</b>		<b>\$ 220,034</b>

\*Amount of common shares outstanding is \$100.

**6. Retained earnings:**

The changes in retained earnings for the six months ended June 30, 2018 and 2017 are as follows:

	June 30, 2018 ('000s)	June 30, 2017 ('000s)
Opening retained earnings	\$ 795,499	\$ 406,179
Net income	78,638	41,662
Closing retained earnings	\$ 874,137	\$ 447,841

**7. Deferred share unit plan:**

In 2009, Cymbria implemented a Deferred Share Unit ("DSU") plan that gives directors the option to receive all of their Cymbria-related compensation in the form of DSUs. The number of DSUs awarded is based on the fair market value, as defined by the plan, of Class A shares on the award date. DSUs earn additional DSUs related to dividends that would otherwise have been paid if Class A shares had been issued on the grant date. The number of DSUs issued in regard to dividends is based on the fair market value of Class A shares, as defined in the plan, on the date dividends are paid. Upon redemption of DSUs, participants can elect to receive either a cash payment equal to the fair market value, as defined in the plan, of DSUs credited to the participant's account, or the equivalent number of Class A shares purchased in the open market on the participant's behalf. The plan is considered unfunded and participants' rights are no greater than those of an unsecured Cymbria creditor.

The following table summarizes DSU activity for the six months ended June 30, 2018 and the year ended December 31, 2017:

June 30, 2018	Units	Amount ('000s)
Opening Deferred Share Units, January 1, 2018	14,609	\$ 756
Granted during 2018 (Fair value on grant date)	891	51
Cumulative fair value adjustments during the period		135
Balance, June 30, 2018	15,500	\$ 942

December 31, 2017	Units	Amount ('000s)
Opening Deferred Share Units, January 1, 2017	12,410	\$ 485
Granted during 2017 (Fair value on grant date)	2,199	103
Cumulative fair value adjustments during the year		168
Balance, December 31, 2017	14,609	\$ 756

A maximum of 1,000,000 DSUs may be awarded under the plan, with the maximum value of DSUs awarded to participants within any one-year period not to exceed \$100,000 per participant.

**8. Related party transactions:**

## a. Management fees:

The Manager charges a monthly management fee at an annual rate of 1% of the daily average net asset value of Class A shares, excluding EdgePoint's value. During the six months ended June 30, 2018, the effective management fee charged on Class A shares was approximately 0.84% per annum.

The Manager charges Class J shareholders a monthly management fee at an annual rate of 0.5% of the daily average net asset value of Class J shares, excluding EdgePoint's value. During the six months ended June 30, 2018, the effective management fee charged on Class J shares was approximately 0.42% per annum.

The total management fee for the six months ended June 30, 2018 amounted to \$3.6 million (June 30, 2017: \$3.2 million), with \$0.0 million in outstanding accrued fees due to the Manager at June 30, 2018 (December 31, 2017: \$0.0 million).

## b. Operating expenses

Cymbria is also responsible for various expenses relating to its operations. These expenses may include, but are not limited to: taxes (including income, capital and harmonized sales taxes), accounting, legal and audit fees, Board of Directors' fees and expenses, custodial fees, portfolio transaction costs, registrar and transfer agency fees, regulatory costs, shareholder reporting, investment advisor expenses incurred in connection with its duties as Investment Advisor and all administration expenses incurred by the Manager for its duties as Manager, excluding any salaries to the Manager's principal shareholders, and all general operating expenses that could include allocated salaries, overhead and other costs directly related to Cymbria's operations and incurred by the Manager. For the six months ended June 30, 2018, allocated expenses totaled \$0.2 million (June 30, 2017: \$0.2 million). Except for bank charges, withholding tax, and transaction costs paid or payable directly by Cymbria, the Manager incurs such expenses on Cymbria's behalf and is then reimbursed by Cymbria for such expenses. Cymbria's common operating expenses are allocated to classes based on the average daily NAVs of each class.

**9. Credit facility:**

On September 22, 2017, Cymbria entered into a credit agreement with a Canadian chartered bank (the "Bank") that matures on September 21, 2022 and can be renewed on an annual basis. The credit agreement allows Cymbria to borrow up to \$100 million. Interest is charged on the outstanding balance based on whether the facility is drawn as bankers acceptance or prime loan. For a bankers acceptance loan,

interest is charged on the outstanding balance at the bankers acceptance rate plus 80 basis points. For a prime loan, interest is charged on the outstanding balance at the Bank's prime rate. In addition, Cymbria will pay a standby fee on the unused portion of the credit facility equal to 34 basis points if the facility is less than 25% drawn and 26 basis points otherwise. Cymbria paid a closing fee of \$250,000 to initiate the facility. When drawn upon, the credit facility will be secured by a selection of eligible securities in Cymbria's investment portfolio. As at June 30, 2018, the outstanding balance of the credit facility was nil (December 31, 2017: nil). For the six months ended June 30, 2018, Cymbria accrued \$0.2 million in interest and standby fees on the credit facility, which have been subsequently paid. As at the date of this report, Cymbria has complied with all covenants, conditions or other requirements of the credit agreement.

**10. Fair value measurement:**

Cymbria's investments and derivative financial instruments are carried at fair value. In the opinion of the Manager, the fair values of financial instruments, other than investments and derivative financial instruments, approximate their carrying values given their short-term nature.

IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy are as follows:

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

If inputs of different levels are used to measure an asset's or liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

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

The following table categorizes financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is included. The amounts are based on the values recognized in the statement of financial position.

**10. Fair value measurement (continued):**

All fair value measurements below are recurring:

Assets (liabilities) at fair value as at June 30, 2018 ('000s)				
	Level 1	Level 2	Level 3	Total
Equities	\$ 880,430	\$ –	\$ 223,086	\$ 1,103,516
Options	1,506	–	–	\$ 1,506
Foreign exchange forward contracts	–	558	–	\$ 558
Foreign exchange forward contracts	–	(196)	–	\$ (196)
<b>Total</b>	<b>\$ 881,936</b>	<b>\$ 362</b>	<b>\$ 223,086</b>	<b>\$ 1,105,384</b>

Assets (liabilities) at fair value as at December 31, 2017 ('000s)				
	Level 1	Level 2	Level 3	Total
Equities	\$ 807,555	\$ –	\$ 185,941	\$ 993,496
Foreign exchange forward contracts	–	957	–	957
<b>Total</b>	<b>\$ 807,555</b>	<b>\$ 957</b>	<b>\$ 185,941</b>	<b>\$ 994,453</b>

For the six months ended June 30, 2018, the net change in value for financial instruments classified as fair value through profit or loss is a \$81.6 million gain (June 30, 2017: \$107.8 million gain).

The following tables reconcile Cymbria's Level 3 fair value measurements for the six months ended June 30, 2018 and the year ended December 31, 2017.

June 30, 2018 ( '000s)		Equities
Balance at beginning of period		\$ 185,941
Change in unrealized appreciation (depreciation) in value of investments		37,145
Balance at end of period		\$ 223,086
Total change in unrealized appreciation for assets held as at June 30, 2018		\$ 37,145

December 31, 2017 ( '000s)		Equities
Balance at beginning of the year		\$ 119,118
Transfers out		(8,791)
Change in unrealized appreciation in value of investments		75,614
Balance at end of the year		\$ 185,941
Total change in unrealized appreciation for assets held as at December 31, 2017		\$ 75,614

During the six months ended June 30, 2018, there were no transfers between levels (June 30, 2017: nil).

a) Equities

Cymbria's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable. When certain of Cymbria's equities do not trade frequently, current observable prices may not be available. In such cases, fair value is determined using observable market

data and the fair value is classified as Level 2, unless the determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3.

As at June 30, 2018, Cymbria's only Level 3 investment was EdgePoint.

EdgePoint is a private company not traded on any public exchange and is considered a Level 3 asset because there is no market in which a share price can be readily observed. At least annually, the Manager engages a third-party valuator to assist in the valuation of EdgePoint. EdgePoint's value is determined using the Discounted Cash Flow ("DCF") method. Under the DCF method, EdgePoint's fair value is estimated using the net present value of expected future cash flows. The cash flows include significant assumptions over market growth, net sales, expenses including income taxes and the estimated market value of portfolio management services received from a related party, discount rates and an exit or terminal value. The projected cash flows, together with the terminal value of the business at the end of the forecast period, are discounted to the valuation date using an appropriate rate. This value is corroborated with a number of other recognized valuation methodologies for comparable businesses, such as price-to-AUM and price-to-earnings ratios. These data points are then compared to analyst reports and information available for publicly traded wealth management companies to determine a range of values for the business, which is then discounted for the private nature of the shares and minority interest issues due to less than a controlling interest being owned. The Manager determines the most appropriate valuation methodologies to use, which are subject to change. On a quarterly basis or as frequently as necessary, the Manager reviews the key assumptions, including EdgePoint's results and business prospects, for significant changes since the most recent valuation. If there are material changes, the Manager may engage the third-party valuator to assist in the re-valuation of EdgePoint and the amount recorded in the financial statements will be updated.

The following table sets out information about significant unobservable inputs used at June 30, 2018 in measuring EdgePoint, which is categorized as Level 3 in the fair value hierarchy.

EdgePoint Wealth Management Inc.

Fair Value at June 30, 2018: \$223.1 million  
(December 31, 2017: \$185.9 million).

Unobservable Input	Input used	Range of reasonable alternatives	Sensitivity to changes in significant unobservable inputs
Annual market growth	5%	4%–6%	(\$9.6M)–\$10.1M
Redemption rate	12.5%	9%–14%	\$35.7M–(\$15.7M)
Discount rate	11.5%	10%–13%	\$32.0M–(\$24.2M)
Portfolio management cost	0.11%	0.09%–0.16%	\$11.1M–(\$25.8M)

**10. Fair value measurement (continued):**

Significant unobservable inputs are developed as follows:

- (i) Annual market growth: represents the future weighted average investment returns of the funds managed by EdgePoint. EdgePoint's management fee revenue is calculated as a percentage of assets under management ("AUM"), therefore higher investment returns of the funds will increase EdgePoint's expected annual cash flow. The range of 4%-6% was developed based on a weighted average of the index returns of the funds' benchmarks over a range of prior periods.
- (ii) Redemption rate: represents the weighted average of units redeemed by unitholders of the mutual funds managed by EdgePoint as a percentage of AUM. A higher redemption rate will decrease EdgePoint's AUM and will therefore lower the annual cash flow. The range of 9%-14% is based on a combination of EdgePoint's historical redemption rate and the long-term redemption rate of the industry.
- (iii) Discount rate: is the annual percentage used to determine the present value of EdgePoint's future cash flows. The discount rate factors in not only the time value of money, but also the risk or uncertainty of those future cash flows. A higher discount rate would indicate a greater uncertainty of future cash flows and therefore determine a lower net present value for EdgePoint. The range of 10%-13% was determined based on a combination of EdgePoint's assumed weighted-average cost of capital, the risk-free rate, market risk factors and other systematic and unsystematic risk factors.
- (iv) Portfolio management cost: represents the fees paid to the Manager by EdgePoint for providing investment advisory services. Due to the Manager and EdgePoint being related parties, fees negotiated between the two parties are considered below market value. For the purposes of valuing EdgePoint, it is assumed that a reasonable market value for services provided is paid to the Manager. A higher rate would increase the fees paid to the Manager and therefore decrease the annual cash flow. The input is presented as a percentage of AUM. The range of 0.9%-0.16% was determined based on the profitability margins of comparable investment managers.

Although the Manager believes that its estimates of fair value for EdgePoint are appropriate, the use of different assumptions could lead to different measurements of fair value. For the fair value measurement of EdgePoint, changing a combination of the significant assumptions noted above to reasonably possible alternative assumptions would increase or decrease the value of EdgePoint. Taking a pessimistic view by changing the annual market rate to 4%, redemption rate to 14%, discount rate to 13%, and portfolio management cost to 0.16% would result in a decrease in the value of

EdgePoint by \$66.0 million. Conversely, taking an optimistic view by changing the annual market rate to 6%, redemption rate to 9%, discount rate to 10%, and portfolio management cost to 0.09% would result in an increase in the value of EdgePoint by \$107.7 million.

**b) Derivative assets and liabilities**

Derivative assets and liabilities consists of foreign exchange forward contracts. Foreign exchange forward contracts are valued primarily on the contract notional amount, the difference between the contract rate and the forward market rate for the same currency and interest rates. Contracts for which counterparty credit spreads are observable and reliable, or for which the credit related inputs are determined not to be significant to fair value, are classified as Level 2. Counterparty credit risk is managed through the use of collateral and a Credit Support Annex, when available.

## **OFFICERS**

**Tye Bousada, CFA**

*Co-Chief Executive Officer*

**Geoff MacDonald, CFA**

*Co-Chief Executive Officer*

**Diane Rossi**

*Corporate Secretary*

**Norman Tang, CPA, CA**

*Chief Financial Officer*

## **DIRECTORS**

**Ugo Bizzarri, CFA**

*Director*

**Reena Carter, CA, CPA, CBV, C.Dir**

*Director and Chair of the Audit Committee*

**Patrick Farmer, CFA**

*Chairman*

**James MacDonald**

*Director and member of the Audit Committee*

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*Director and member of the Audit Committee*

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## **TORONTO STOCK EXCHANGE LISTING**

**CYB**