

Unaudited Financial Statements of

CYMBRIA CORPORATION

**Three months and nine months ended
September 30, 2019**

CYMBRIA[®]

CYMBRIA CORPORATION

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
November 8, 2019



Norman Tang
Chief Financial Officer
November 8, 2019

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.

CYMBRIA CORPORATION

Statements of Financial Position (Unaudited)
(in '000s except per share amounts and number of shares)
As at September 30, 2019 and December 31, 2018

	September 30, 2019	December 31, 2018 (Audited)
Assets		
Investments	\$ 898,056	\$ 827,789
EdgePoint Wealth Management Inc.	248,381	224,121
Foreign exchange forward contracts	72	–
Total financial assets at fair value through profit or loss*	1,146,509	1,051,910
Cash and cash equivalents	68,468	20,325
Receivable for investments sold	734	116
Dividends receivable	1,580	530
Interest receivable	76	–
Income tax recovery	4,749	–
Total Assets	\$ 1,222,116	\$ 1,072,881
Liabilities		
Accrued liabilities	\$ 38	\$ 75
Payable for investments purchased	2,329	427
Foreign exchange forward contracts	248	3,769
Credit facility (Note 9)	6,000	–
Income taxes payable	–	2,590
Total current liabilities	8,615	6,861
Deferred share unit plan liability (Note 7)	963	940
Deferred income tax liability	37,592	27,803
Total Liabilities	\$ 47,170	\$ 35,604
Shareholders' equity		
Share capital (Note 5)	\$ 220,034	\$ 220,034
Retained earnings (Note 6)	954,912	817,243
Total Shareholders' Equity	\$ 1,174,946	\$ 1,037,277
Shareholders' equity		
Common stock	\$ –	\$ –
Class A	784,970	682,289
Class J	389,976	354,988
Number of shares outstanding (Note 5)		
Class A	15,693,448	15,438,357
Class J	7,050,482	7,281,482
Total shareholder's equity per share		
Class A	\$ 50.02	\$ 44.19
Class J	\$ 55.31	\$ 48.75

*Cost of investments is reflected in the *Schedule of Investment Portfolio*.

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

ON BEHALF OF THE BOARD:



Reena Carter, Director



James MacDonald, Director

CYMBRIA CORPORATION
Statements of Comprehensive Income (Unaudited)
(in '000s except per share amounts)
Three months and nine months ended September 30, 2019 and 2018

	Three months ended Sep. 30,		Nine months ended Sep. 30	
	2019	2018	2019	2018
Income				
Dividends from EdgePoint Wealth Management Inc.	\$ 6,282	\$ 3,105	\$ 15,804	\$ 9,930
Dividends	6,899	4,283	22,508	10,812
Interest for distribution purposes	392	118	977	366
Foreign currency gain (loss) on cash and other net assets	8	(155)	(137)	24
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	24,243	36,651	52,848	114,004
Net realized gain (loss) on foreign exchange forward contracts	183	129	(1,408)	(1,263)
Change in unrealized appreciation on investments	(15,630)	(8,473)	70,338	(2,202)
Change in unrealized appreciation (depreciation) on foreign exchange forward contracts	(1,079)	1,744	3,593	1,148
Total Income	\$ 21,298	\$ 37,402	\$ 164,523	\$ 132,819
Expenses (Note 8)				
Management fees	\$ 2,033	\$ 1,899	\$ 5,737	\$ 5,532
Net Withholding tax	602	467	1,414	1,402
Operating expenses	450	460	1,185	1,264
Harmonized Sales Tax	343	325	954	938
Interest expense (Note 9)	92	86	365	253
Investment research and portfolio maintenance	151	132	413	410
Transaction costs	70	202	266	522
Total Expenses	\$ 3,741	\$ 3,571	\$ 10,334	\$ 10,321
Profit for the period before taxes	\$ 17,557	\$ 33,831	\$ 154,189	\$ 122,498
Income taxes (recovery)				
Current	\$ 3,530	\$ 4,655	\$ 6,731	\$ 13,981
Deferred	(2,205)	(893)	9,789	(190)
Total Income taxes	\$ 1,325	\$ 3,762	\$ 16,520	\$ 13,791
Net comprehensive income	\$ 16,232	\$ 30,069	\$ 137,669	\$ 108,707
Net comprehensive income, by class				
Class A	\$ 10,559	\$ 18,695	\$ 89,945	\$ 66,932
Class J	\$ 5,673	\$ 11,374	\$ 47,724	\$ 41,775
Net comprehensive income, per share				
Class A	\$ 0.67	\$ 1.27	\$ 5.77	\$ 4.59
Class J	\$ 0.80	\$ 1.44	\$ 6.67	\$ 5.18

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

CYMBRIA CORPORATION

Statements of Changes in Equity (Unaudited)
(in '000s)
Nine months ended September 30, 2019 and 2018

	2019	2018
Class A:		
Shareholders' equity, beginning of the period	\$ 682,289	\$ 627,136
Net income, by class	89,945	66,932
Capital transactions:		
Class J to Class A share exchanges	2,394	2,691
Cumulative surplus on Class J to Class A share exchanges	(84)	(87)
Surplus	10,426	11,167
	102,681	80,703
Shareholders' equity, end of the period	\$ 784,970	\$ 707,839
Class J:		
Shareholders' equity, beginning of the period	\$ 354,988	\$ 388,397
Net income, by class	47,724	41,775
Capital transactions:		
Class J to Class A share exchanges	(2,310)	(2,604)
Surplus	(10,426)	(11,167)
	34,988	28,004
Shareholders' equity, end of the period	\$ 389,976	\$ 416,401

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

CYMBRIA CORPORATION

Statements of Cash Flows (Unaudited)

(in '000s)

Nine months ended September 30, 2019 and 2018

	2019	2018
Cash Flow from Operating Activities		
Net income	\$ 137,669	\$ 108,707
Adjustments for:		
Foreign currency (gain) loss on cash and other net assets	137	(24)
Net realized (gain) loss on investments	(52,848)	(114,004)
Net realized (gain) loss on foreign exchange forward contracts	1,408	1,263
Change in unrealized (appreciation) on investments	(70,338)	2,202
Change in unrealized (appreciation) depreciation on foreign exchange forward contracts	(3,593)	(1,148)
(Increase) decrease in dividends receivable	(1,050)	(1,015)
(Increase) decrease in interest receivable	(76)	-
Increase (decrease) in accrued liabilities and other payables	(7,353)	2,600
Increase (decrease) in deferred income tax liability	9,789	(190)
Purchase of investments	(218,597)	(353,373)
Proceeds from sales of investments	247,132	326,508
Net Cash Generated (Used) by Operating Activities	\$ 42,280	\$ (28,474)
Cash Flows from Financing Activities		
Drawn on credit facility, net of repayments	6,000	-
Net Cash Generated (Used) by Financing Activities	\$ 6,000	\$ -
Net increase (decrease) in cash and cash equivalents	\$ 48,280	\$ (28,474)
Foreign currency gain (loss) on cash and other net assets	(137)	24
Cash and cash equivalents, beginning of period	20,325	68,223
Cash and cash equivalents, end of the period	\$ 68,468	\$ 39,773
Cash and cash equivalents comprise:		
Cash at bank	\$ 68,468	\$ 39,773
	\$ 68,468	\$ 39,773
Interest received, net of withholding tax	\$ 901	\$ 366
Dividends received, net of withholding tax	\$ 35,848	\$ 18,325
Interest paid	\$ (286)	\$ (264)
Income taxes paid	\$ (4,572)	\$ (11,537)

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

CYMBRIA CORPORATION

Schedule of Investment Portfolio (Unaudited)
(in '000s except number of shares/units)
As at September 30, 2019

Number of shares/units	Security	Average cost	Fair value	% of shareholders' equity
Equities				
Banks				
614,715	Wells Fargo & Co.	\$ 32,951	\$ 41,079	3.50%
		32,951	41,079	3.50%
Communication Services				
	<i>Other</i>	29,948	24,270	2.07%
		29,948	24,270	2.07%
Consumer Discretionary				
1,096,434	Subaru Corp.	45,777	40,841	3.48%
	<i>Other</i>	66,611	58,504	4.98%
		112,388	99,345	8.46%
Consumer Staples				
494,041	Shiseido Co., Ltd.	15,107	52,235	4.45%
	<i>Other</i>	14,311	13,637	1.16%
		29,418	65,872	5.61%
Diversified Financials				
279,585	EdgePoint Wealth Management Inc.	510	248,381	21.14%
75	Berkshire Hathaway Inc., Class A	23,368	30,984	2.64%
276,522	Affiliated Managers Group, Inc.	44,417	30,535	2.60%
	<i>Other</i>	6,428	9,864	0.84%
		74,723	319,764	27.22%
Energy				
	<i>Other</i>	41,376	26,620	2.26%
		41,376	26,620	2.26%
Health Care				
352,464	Shionogi & Company Ltd.	24,975	25,908	2.21%
1,228,348	Swedish Orphan Biovitrum AB	28,262	24,938	2.12%
	<i>Other</i>	15,987	20,051	1.71%
		69,224	70,897	6.04%
Industrials				
475,622	CSX Corp.	32,981	43,649	3.71%
659,809	Flowserve Corp.	38,775	40,832	3.48%
194,163	The Middleby Corp.	29,525	30,071	2.56%
	<i>Other</i>	68,305	66,969	5.69%
		169,586	181,521	15.44%
Information Technology				
271,951	TE Connectivity Ltd.	22,682	33,572	2.86%
155,177	Fidelity National Information Services Inc.	22,010	27,294	2.32%
2,359,167	Real Matters Inc.	13,674	26,045	2.22%
	<i>Other</i>	17,546	17,419	1.48%
		75,912	104,330	8.88%
Insurance				
	<i>Other</i>	58,987	55,917	4.76%
		58,987	55,917	4.76%
Materials				
326,185	DuPont de Nemours Inc.	30,393	30,817	2.62%
	<i>Other</i>	60,705	64,436	5.49%
		91,098	95,253	10.17%

CYMBRIA CORPORATION

Schedule of Investment Portfolio (Unaudited)
(in '000s except number of shares/units)
As at September 30, 2019

Number of shares/units	Security	Average cost	Fair value	% of shareholders' equity
	Real Estate			
	<i>Other</i>	60,285	47,085	3.99%
		60,285	47,085	3.99%
	Total Equities	\$ 845,896	\$ 1,131,953	98.40%
	Fixed Income			
	<i>Other</i>	13,165	13,166	1.12%
	Total Fixed Income	\$ 13,165	\$ 13,166	1.12%
	Foreign exchange forward contracts		(176)	-0.01%
	Options	2,140	1,318	0.11%
	Adjustment for transaction costs	(581)		
	Total financial assets and liabilities at fair value through profit or loss	\$ 860,620	\$ 1,146,261	99.62%

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:

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 November 8, 2019.

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, 2018, which were prepared in accordance with IFRS. Cymbria has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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, 2018.

5. Share capital:

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

September 30, 2019	Number of shares	Amount ('000s)
Common shares outstanding, September 30, 2019	100	—*
Class A shares issued:		
Shares outstanding, January 1, 2019	15,438,357	\$ 147,219
Class A shares issued in exchange for Class J shares	255,091	2,394
Contributed surplus		(84)
Class A shares outstanding, September 30, 2019	15,693,448	\$ 149,529
Class J shares issued:		
Shares outstanding, January 1, 2019	7,281,482	\$ 72,815
Class J shares exchanged for Class A shares	(231,000)	(2,310)
Class J shares outstanding, September 30, 2019	7,050,482	\$ 70,505
Total		\$ 220,034

*Amount of common shares outstanding is \$100.

September 30, 2018	Number of shares	Amount ('000s)
Common shares outstanding, September 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	286,774	2,691
Contributed surplus		(87)
Class A shares outstanding, September 30, 2018	14,760,825	\$ 141,074
Class J shares issued:		
Shares outstanding, January 1, 2018	8,156,427	\$ 81,564
Class J shares exchanged for Class A shares	(260,445)	(2,604)
Class J shares outstanding, September 30, 2018	7,895,982	\$ 78,960
Total		\$ 220,034

*Amount of common shares outstanding is \$100.

6. Retained earnings:

The changes in retained earnings for the nine months ended September 30, 2019 and 2018 are as follows:

	September 30, 2019	September 30, 2018
	('000s)	('000s)
Opening retained earnings	\$ 817,243	\$ 795,499
Net income	137,669	108,707
Closing retained earnings	\$ 954,912	\$ 904,206

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 nine months ended September 30, 2019 and the year ended December 31, 2018:

September 30, 2019	Units	Amount ('000s)
Opening Deferred Share Units, January 1, 2019	16,379	\$ 940
Granted during 2019 (Fair value on grant date)	1,387	77
Cumulative fair value adjustments during the period		(54)
Balance, September 30, 2019	17,766	\$ 963
December 31, 2018	Units	Amount ('000s)
Opening Deferred Share Units, January 1, 2018	14,609	\$ 756
Granted during 2018 (Fair value on grant date)	1,770	103
Cumulative fair value adjustments during the year		81
Balance, December 31, 2018	16,379	\$ 940

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 nine months ended September 30, 2019, the effective management fee charged on Class A shares was approximately 0.80% 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 nine months ended September 30, 2019, the effective management fee charged on Class J shares was approximately 0.40% per annum.

The total management fee for the nine months ended September 30, 2019 amounted to \$5.7 million (September 30, 2019: \$5.5 million), with nil in outstanding accrued fees due to the Manager at September 30, 2019 (December 31, 2018: nil).

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 nine months ended September 30, 2019, allocated expenses totaled \$0.3 million (September 30, 2018: \$0.3 million). Except for interest, 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 net asset value of each class.

9. Credit facility:

On September 22, 2017, Cymbria entered into a five-year credit agreement with a Canadian chartered bank (the “Bank”) that can be renewed on an annual basis thereafter. This agreement was renewed to mature on September

9. Credit facility (continued):

21, 2024. 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. When drawn upon, the credit facility is secured by a selection of eligible securities in Cymbria's investment portfolio. As at September 30, 2019, the outstanding balance of the credit facility was \$6.0 million (December 31, 2018: nil). For the nine months ended September 30, 2019, Cymbria accrued \$0.4 million in interest and standby fees on the credit facility (September 30, 2018: \$0.3 million), 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*.

All fair value measurements below are recurring.

Assets (liabilities) at fair value as at September 30, 2019 ('000s)				
	Level 1	Level 2	Level 3	Total
Equities	\$ 883,408	\$ –	\$ 248,545	\$ 1,131,953
Fixed income	–	5,997	7,169	13,166
Options	–	1,318	–	1,318
Foreign exchange forward contracts	–	72	–	72
Foreign exchange forward contracts	–	(248)	–	(248)
Total	\$ 883,408	\$ 7,139	\$ 255,714	\$ 1,146,261

Assets (liabilities) at fair value as at December 31, 2018 ('000s)				
	Level 1	Level 2	Level 3	Total
Equities	\$ 827,158	\$ –	\$ 224,121	\$ 1,051,279
Options	–	631	–	631
Foreign exchange forward contracts	–	(3,769)	–	(3,769)
Total	\$ 827,158	\$ (3,138)	\$ 224,121	\$ 1,048,141

For the nine months ended September 30, 2019, the net change in value for financial instruments classified as at FVTPL is a \$125.4 million gain (December 31, 2018: \$6.7 million gain).

The following tables reconcile Cymbria's Level 3 fair value measurements for the nine months ended September 30, 2019 and the year ended December 31, 2018.

September 30, 2019 ('000s)	Equities	Fixed Income
Balance at beginning of period	\$ 224,121	–
Investment purchases during the period	164	7,169
Change in unrealized appreciation of investments	24,260	–
Balance at end of period	\$ 248,545	7,169

December 31, 2018 ('000s)		Equities
Balance at beginning of year	\$ 185,941	
Change in unrealized appreciation of investments	38,180	
Balance at end of year	\$ 224,121	

10. Fair value measurement (continued):

During the nine months ended September 30, 2019, there were no transfers between levels (September 30, 2018: none).

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 September 30, 2019, Cymbria held two equity investments classified as Level 3. The most significant of these investments is 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. 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 considerations 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 September 30, 2019 in measuring EdgePoint, which is categorized as Level 3 in the fair value hierarchy.

EdgePoint Wealth Management Inc.

Fair Value at September 30, 2019: \$248.4 million
 (December 31, 2018: \$224.1 million).

Unobservable Input	Input used	Range of reasonable alternatives	Sensitivity to changes in significant unobservable inputs
Annual market growth	5%	4%–6%	(\$10.4M)–\$11.0M
Redemption rate	13%	10%–15%	\$33.1M–(\$14.2M)
Discount rate	11.5%	10%–13%	\$35.4M–(\$26.6M)
Portfolio management cost	0.15%	0.10%–0.20%	\$22.9M–(\$22.9M)

- (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 10%–15% 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/or a higher cost of capital 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 substantially 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 0.10%–0.20% was determined based on sub-advisory fees of comparable investment managers.

10. Fair value measurement (continued):

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 15%, discount rate to 13%, and portfolio management cost to 0.20% would result in a decrease in the value of EdgePoint by \$65.1 million. Conversely, taking an optimistic view by changing the annual market rate to 6%, redemption rate to 10%, discount rate to 10%, and portfolio management cost to 0.10% would result in an increase in the value of EdgePoint by \$124.2 million.

b) Fixed income

Cymbria holds two fixed income securities classified as Level 3 because of a lack of observable inputs in the valuation. The fair value of this investment has been determined based on cost and evaluated for impairment in the interim.

c) Derivative assets and liabilities

Derivative assets and liabilities consists of foreign exchange forward contracts and equity call option 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. Equity options are valued primarily on the number of contracts, the difference between the strike price and the forward market rate for the underlying equity/index, interest rate, dividends and volatility of the underlying equity/index. 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

Richard Whiting
Director and member of the Audit Committee

AUDITOR

KPMG LLP
333 Bay St., Suite 4600
Bay Adelaide Centre
Toronto, ON M5H 2S5

CUSTODIAN

CIBC Mellon Trust Company
1 York St., Suite 900
Toronto, ON M5J 0B6

MANAGER AND INVESTMENT ADVISOR

EdgePoint Investment Group Inc.
150 Bloor St. W., Suite 500
Toronto, ON M5S 2X9

LEGAL COUNSEL

Stikeman Elliott LLP
5300 Commerce Crt. W.
199 Bay St.
Toronto, ON M5L 1B9

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
100 University Ave., 8th floor
Toronto, ON M5J 2Y1

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