

Unaudited Financial Statements of

CYMBRIA CORPORATION

Three months and six months ended June 30, 2020

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 four 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 13, 2020



Norman Tang
Chief Financial Officer
August 13, 2020

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 June 30, 2020 and December 31, 2019

	June 30, 2020	December 31, 2019 (Audited)
Assets		
Investments	\$ 810,035	\$ 905,555
EdgePoint Wealth Management Inc.	219,200	254,431
Foreign exchange forward contracts	1,531	2,241
Total financial assets at fair value through profit or loss*	1,030,766	1,162,227
Cash and cash equivalents	54,493	85,283
Receivable for investments sold	357	63
Dividends receivable	861	659
Interest receivable	16	103
Income tax recovery	15,425	7,016
Total Assets	\$ 1,101,918	\$ 1,255,351
Liabilities		
Payable for investments purchased	\$ 3,563	\$ 1,009
Foreign exchange forward contracts	3,251	59
Credit facility (Note 9)	6,000	6,000
Total current liabilities	12,814	7,068
Deferred share unit plan liability (Note 7)	910	1,018
Deferred income tax liability	21,581	39,529
Total Liabilities	\$ 35,305	\$ 47,615
Shareholders' equity		
Share capital (Note 5)	\$ 220,034	\$ 220,034
Retained earnings (Note 6)	846,579	987,702
Total Shareholders' equity	\$ 1,066,613	\$ 1,207,736
Shareholders' equity		
Common stock	\$ -	\$ -
Class A	719,243	806,682
Class J	347,370	401,054
Number of shares outstanding (Note 5)		
Class A	15,852,896	15,694,001
Class J	6,906,482	7,049,982
Total shareholder's equity per share		
Class A	\$ 45.37	\$ 51.40
Class J	\$ 50.30	\$ 56.89

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

Certain comparative figures have been reclassified to conform with the current year's presentation.

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 and six months ended June 30, 2020 and 2019

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Income				
Dividends from EdgePoint Wealth Management Inc.	\$ 4,762	\$ 5,175	\$ 9,937	\$ 9,522
Dividends	2,418	11,083	6,585	15,609
Interest for distribution purposes	156	308	600	585
Foreign currency gain (loss) on cash and other net assets	(1,162)	(83)	(1,480)	(145)
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	(15,113)	10,747	(36,255)	28,605
Net realized gain (loss) on foreign exchange forward contracts	(3,467)	709	(2,496)	(1,591)
Change in unrealized appreciation (depreciation) on investments	115,369	27,039	(130,128)	85,968
Change in unrealized appreciation (depreciation) on foreign exchange forward contracts	4,040	467	(5,352)	4,672
Total Income	\$ 107,003	\$ 55,445	\$ (158,589)	\$ 143,225
Expenses (Note 8)				
Management fees	\$ 1,716	\$ 1,918	\$ 3,634	\$ 3,704
Net Withholding tax	289	355	732	812
Operating expenses	196	412	315	735
Harmonized Sales Tax	281	324	579	611
Interest Expense (Note 9)	112	151	234	273
Investment research and portfolio maintenance	145	162	404	262
Transaction costs	200	124	437	196
Total Expenses	\$ 2,939	\$ 3,446	\$ 6,335	\$ 6,593
Profit (loss) for the period before taxes	\$ 104,064	\$ 51,999	\$ (164,924)	\$ 136,632
Income taxes (recovery)				
Current	\$ (3,030)	\$ 1,207	\$ (5,853)	\$ 3,201
Deferred	15,770	3,629	(17,948)	11,994
Total Income taxes	\$ 12,740	\$ 4,836	\$ (23,801)	\$ 15,195
Net income (loss)	\$ 91,324	\$ 47,163	\$ (141,123)	\$ 121,437
Net income (loss), by class				
Class A	\$ 61,275	\$ 30,856	\$ (95,236)	\$ 79,386
Class J	\$ 30,049	\$ 16,307	\$ (45,887)	\$ 42,051
Net income (loss), per share				
Class A	\$ 3.87	\$ 1.98	\$ (6.03)	\$ 5.11
Class J	\$ 4.34	\$ 2.29	\$ (6.60)	\$ 5.84

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, 2020 and 2019

	2020	2019
Class A:		
Shareholders' equity, beginning of the period	\$ 806,682	\$ 682,289
Net income, by class	(95,236)	79,386
Capital transactions:		
Class J to Class A share exchanges	1,491	2,083
Cumulative surplus on Class J to Class A share exchanges	(56)	(73)
Surplus	6,362	9,021
	(87,439)	90,417
Shareholders' equity, end of the period	\$ 719,243	\$ 772,706
Class J:		
Shareholders' equity, beginning of the period	\$ 401,054	\$ 354,988
Net income, by class	(45,887)	42,051
Capital transactions:		
Class J to Class A share exchanges	(1,435)	(2,010)
Surplus	(6,362)	(9,021)
	(53,684)	31,020
Shareholders' equity, end of the period	\$ 347,370	\$ 386,008

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, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Net income	\$ (141,123)	\$ 121,437
Adjustments for:		
Foreign currency (gain) loss on cash and other net assets	1,480	145
Net realized (gain) loss on investments	36,255	(28,605)
Net realized (gain) loss on foreign exchange forward contracts	2,496	1,591
Change in unrealized (appreciation) depreciation on investments and EdgePoint Wealth Management Inc.	130,128	(85,968)
Change in unrealized (appreciation) depreciation on foreign exchange forward contracts	5,352	(4,672)
(Increase) decrease in dividends receivable	(202)	(410)
(Increase) decrease in interest receivable	87	(42)
Increase (decrease) in accrued liabilities and other payables	(8,517)	(6,891)
Increase (decrease) in deferred income tax liability	(17,948)	11,994
Purchase of investments	(285,741)	(93,744)
Proceeds from sales of investments	248,423	147,197
Net Cash Generated (Used) by Operating Activities	\$ (29,310)	\$ 62,032
Cash Flows from Financing Activities		
Issuance of credit facility, net of repayments	-	6,000
Net Cash Generated (Used) by Financing Activities	\$ -	\$ 6,000
Net increase (decrease) in cash and cash equivalents	\$ (29,310)	\$ 68,032
Foreign currency gain (loss) on cash and other net assets	(1,480)	(145)
Cash and cash equivalents, beginning of the period	85,283	20,325
Cash and cash equivalents, end of the period	\$ 54,493	\$ 88,212
Cash and cash equivalents comprise:		
Cash at bank	\$ 54,493	\$ 88,212
	\$ 54,493	\$ 88,212
Interest received, net of withholding tax	\$ 687	\$ 543
Dividends received, net of withholding tax	\$ 15,588	\$ 23,909
Interest paid	\$ (234)	\$ (197)
Income taxes paid	\$ (2,556)	\$ (1,468)

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 June 30, 2020

Number of shares/units	Security	Average cost	Fair value	% of shareholders' equity
Equities				
Banks				
	<i>Other</i>	\$ 17,669	\$ 17,561	1.7%
		17,669	17,561	1.7%
Consumer Discretionary				
932,634	Subaru Corp.	38,938	26,284	2.5%
1,800,836	Mattel Inc.	31,023	23,641	2.2%
	<i>Other</i>	63,024	63,888	6.0%
		132,985	113,813	10.7%
Consumer Staples				
478,841	Shiseido Co., Ltd.	19,377	41,151	3.9%
	<i>Other</i>	13,050	11,013	1.0%
		32,427	52,164	4.9%
Diversified Financials				
318,850	Affiliated Managers Group, Inc.	48,270	32,275	3.0%
	Berkshire Hathaway Inc., class A and class B	21,716	24,786	2.3%
	<i>Other</i>	10,935	11,138	1.0%
		80,921	68,199	6.3%
Energy				
	<i>Other</i>	43,705	14,235	1.3%
		43,705	14,235	1.3%
Health Care				
383,664	Shionogi & Co., Ltd.	27,202	32,561	3.1%
833,145	Swedish Orphan Biovitrum AB	19,094	26,122	2.5%
		46,296	58,683	5.5%
Industrials				
387,685	CSX Corp.	27,901	36,706	3.4%
735,702	Flowserve Corp.	41,868	28,486	2.7%
	<i>Other</i>	115,751	108,980	10.2%
		185,520	174,172	16.3%
Information Technology				
146,192	Fidelity National Information Services Inc.	20,970	26,613	2.5%
219,476	TE Connectivity Ltd.	18,752	24,299	2.3%
138,400	Fujitsu Ltd.	18,500	21,961	2.1%
	<i>Other</i>	11,333	7,836	0.7%
		69,555	80,709	7.6%
Insurance				
	<i>Other</i>	57,913	50,993	4.8%
		57,913	50,993	4.8%
Materials				
551,345	Berry Global Group Inc.	29,882	33,174	3.1%
	<i>Other</i>	57,636	56,132	5.3%
		87,518	89,306	8.4%

CYMBRIA CORPORATION

Schedule of Investment Portfolio (Unaudited)
(in '000s except number of shares/units)
As at June 30, 2020

Number of shares/units	Security	Average cost	Fair value	% of shareholders' equity
	Private Equity			
279,585	EdgePoint Wealth Management Inc.	\$ 510	\$ 219,200	20.6%
40,500,000	Neptune Acquisition LP (MDA Corp.)	39,663	39,662	3.7%
	<i>Other</i>	1,333	1,333	0.1%
		<u>41,506</u>	<u>260,195</u>	<u>24.4%</u>
	Real Estate			
	<i>Other</i>	30,856	22,115	2.1%
		<u>30,856</u>	<u>22,115</u>	<u>2.1%</u>
	Telecommunication Services			
	<i>Other</i>	28,627	20,021	1.9%
		<u>28,627</u>	<u>20,021</u>	<u>1.9%</u>
	Total Equities	<u>\$ 855,498</u>	<u>\$ 1,022,166</u>	<u>95.8%</u>
Face Value (\$)	Fixed Income			
6,000,000	Pulse Seismic, subordinated private loan, 10.00% due 2023/12/31	6,000	5,940	0.6%
	Total Fixed Income	<u>\$ 6,000</u>	<u>\$ 5,940</u>	<u>0.6%</u>
	Foreign exchange forward contracts (Note 13)		(1,720)	(0.2%)
	Options (Note 14)	2,140	1,129	0.1%
	Adjustment for transaction costs	(749)		
	Total financial assets and liabilities at fair value through profit or loss	<u>\$ 862,662</u>	<u>\$ 1,027,515</u>	<u>96.3%</u>

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 primarily 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:

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 13, 2020.

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, 2019, 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, 2019.

5. Share capital:

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

June 30, 2020	Number of shares	Amount ('000s)
Common shares outstanding, June 30, 2020	100	—*
Class A shares issued:		
Shares outstanding, January 1, 2020	15,694,001	\$ 149,534
Class A shares issued in exchange for Class J shares	158,895	1,491
Contributed surplus		(56)
Class A shares outstanding, June 30, 2020	15,852,896	\$ 150,969
Class J shares issued:		
Shares outstanding, January 1, 2020	7,049,982	\$ 70,500
Class J shares exchanged for Class A shares	(143,500)	(1,435)
Class J shares outstanding, June 30, 2020	6,906,482	\$ 69,065
Total		\$ 220,034

*Amount of common shares outstanding is \$100.

June 30, 2019	Number of shares	Amount ('000s)
Common shares outstanding, June 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	221,935	2,083
Contributed surplus		(73)
Class A shares outstanding, June 30, 2019	15,660,292	\$ 149,229
Class J shares issued:		
Shares outstanding, January 1, 2019	7,281,482	\$ 72,815
Class J shares exchanged for Class A shares	(201,000)	2,010
Class J shares outstanding, June 30, 2019	7,080,482	\$ 70,805
Total		\$ 220,034

*Amount of common shares outstanding is \$100.

6. Retained earnings:

The changes in retained earnings for the six months ended June 30, 2020 and 2019 are as follows:

	June 30, 2020 (‘000s)	June 30, 2019 (‘000s)
Opening retained earnings	\$ 987,702	\$ 795,499
Net income	(141,123)	121,437
Closing retained earnings	\$ 846,579	\$ 938,680

7. Deferred share unit plan:

Cymbria’s Deferred Share Unit (“DSU”) plan 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. 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, 2020 and the year ended December 31, 2019:

June 30, 2020	Units	Amount (‘000s)
Opening Deferred Share Units, January 1, 2020	18,223	\$ 1,018
Granted during 2020 (Fair value on grant date)	1,188	51
Cumulative fair value adjustments during the period		(159)
Balance, June 30, 2020	18,867	\$ 910
December 31, 2019	Units	Amount (‘000s)
Opening Deferred Share Units, January 1, 2019	16,379	\$ 940
Granted during 2019 (Fair value on grant date)	1,844	103
Cumulative fair value adjustments during the year		(25)
Balance, December 31, 2019	18,223	\$ 1,018

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, 2020, 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 six months ended June 30, 2020, the effective management fee charged on Class J shares was approximately 0.40% per annum.

The total management fee for the six months ended June 30, 2020 amounted to \$3.6 million (June 30, 2019: \$3.7 million), with nil in outstanding accrued fees due to the Manager at June 30, 2020 and December 31, 2019.

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, 2020, allocated expenses totaled \$0.1 million (June 30, 2019: \$0.2 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 credit agreement with a Canadian chartered bank (the “Bank”) that can be renewed on an annual basis. This agreement was renewed to mature on September 22, 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

9. Credit facility (continued):

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 June 30, 2020, the outstanding balance of the credit facility was \$6.0 million (December 31, 2019: \$6.0 million). For the six months ended June 30, 2020, Cymbria accrued \$0.2 million in interest and standby fees on the credit facility (June 30, 2019: \$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 June 30, 2020 ('000s)				
	Level 1	Level 2	Level 3	Total
Equities	\$ 761,971	\$ –	\$ 260,195	\$ 1,022,166
Fixed income	–	–	5,940	5,940
Options	–	1,129	–	1,129
Foreign exchange forward contracts	–	1,531	–	1,531
Foreign exchange forward contracts	–	(3,251)	–	(3,251)
Total	\$ 761,971	\$ (591)	\$ 266,135	\$ 1,027,515

Assets (liabilities) at fair value as at December 31, 2019 ('000s)				
	Level 1	Level 2	Level 3	Total
Equities	\$ 896,523	\$ –	\$ 255,764	\$ 1,152,287
Fixed income	–	–	6,000	6,000
Options	–	1,699	–	1,699
Foreign exchange forward contracts	–	2,241	–	2,241
Foreign exchange forward contracts	–	(59)	–	(59)
Total	\$ 896,523	\$ 3,881	\$ 261,764	\$ 1,162,168

For the six months ended June 30, 2020, the net change in value for financial instruments classified as FVTPL is a \$174.2 million loss (December 31, 2019: \$6.7 million gain).

The following tables reconcile Cymbria's Level 3 fair value measurements for the six months ended June 30, 2020 and the year ended December 31, 2019.

June 30, 2020 ('000s)	Equities	Fixed Income
Balance at beginning of period	\$ 255,764	\$ 6,000
Investment purchases during the period	39,663	–
Change in unrealized appreciation (depreciation) in value of investments	(35,232)	(60)
Balance at end of period	\$ 260,195	\$ 5,940

December 31, 2019 ('000s)	Equities	Fixed Income
Balance at beginning of period	\$ 224,121	\$ –
Investment purchases during the period	1,333	7,169
Change in unrealized appreciation (depreciation) in value of investments	30,310	–
Balance at end of period	\$ 255,764	\$ 7,169

10. Fair value measurement (continued):

During the six months ended June 30, 2020, there were no transfers between levels (June 30, 2019: 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 June 30, 2020, Cymbria had three Level 3 equity investments, in EdgePoint, Neptune Acquisition LP and a private pest control company.

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 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, 2020 in measuring EdgePoint, which is categorized as Level 3 in the fair value hierarchy.

EdgePoint Wealth Management Inc.

Fair Value at June 30, 2020: \$219.2 million
(December 31, 2019: \$254.4 million).

Unobservable Input	Input used	Range of reasonable alternatives	Sensitivity to changes in significant unobservable inputs
Annual market growth	5%	4%–6%	(\$8.9M)–\$9.4M
Redemption rate	16%	14%–18%	\$18.1M–(\$16.0M)
Discount rate	10%	8.75%–11.5%	\$32.6M–(\$24.3M)
Portfolio management cost	0.15%	0.10%–0.20%	\$20.1M–(\$20.1M)

- (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 14%–18% 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 8.75%–11.5% was determined based on a combination of EdgePoint’s assumed weighted-average cost of capital, the risk-free rate, market risk factors, other systemic and unsystemic risk factors, and other adjustments.
- (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 18%, discount rate to 11.5%, and portfolio management cost to 0.20% would result in a decrease in the value of EdgePoint by \$60.4 million. Conversely, taking an optimistic view by changing the annual market rate to 6%, redemption rate to 14%, discount rate to 8.75%, and portfolio management cost to 0.10% would result in an increase in the value of EdgePoint by \$94.0 million.

During the three months ended June 30, 2020, Cymbria purchased a Level 3 asset in Neptune Acquisition LP, which owns MDA Corp. The ownership of the company is held through a limited partnership. The limited partnership is valued quarterly and externally audited on an annual basis. As at June 30, 2020, the fair value of the company was determined using the cost of acquiring ownership during the period. The use of a different valuation methodology would not lead to a significantly different fair value.

Cymbria's other Level 3 asset is a private pest control company that is not traded on any public exchange and is considered a Level 3 asset because there is no market in which its value can be readily observed. The fair value of the company was determined using the cost of acquiring securities of the company during the year ended December 31, 2019. The use of a different valuation methodology would not lead to a significantly different fair value.

In determining the fair value of these Level 3 assets, we have considered the potential impact of the COVID-19 pandemic in our assumptions; however, we have not assumed a long-term impact of the COVID-19 pandemic. The duration and full economic impact of the COVID-19

pandemic is unknown at this time, and accordingly, there is a degree of uncertainty surrounding the potential impact it may have on the business, operations, and/or financial condition of these Level 3 assets.

b) Fixed income

Fixed income is comprised of a corporate bond that is valued using a model with inputs including interest rate curves, credit spreads and volatilities. The inputs relating to Cymbria's fixed income security are not observable and therefore has been classified as Level 3. As at June 30, 2020, the value was determined using this model and changing the inputs would not significantly impact its value to Cymbria. We have considered the potential impact of the COVID-19 pandemic on our assumptions regarding probability of default when valuing this fixed income security; however, we have not assumed a long-term impact of the COVID-19 pandemic. The duration and full economic impact of the COVID-19 pandemic is unknown at this time, and accordingly, any estimates of the extent to which this pandemic may materially impact the business, operations, and financial condition of the borrower is subject to uncertainty.

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.

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