Financial Statements of

RAVENSOURCE FUND

June 30, 2014 and 2013

RAVENSOURCE FUND
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June 30, 2014 and 2013

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements have been prepared by **Stornoway Portfolio Management Inc.** in its capacity as the Investment Manager of the Trust. The Trust's Investment Manager is responsible for the information and representations contained in these financial statements.

The Investment Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements made by the Investment Manager. The significant accounting policies which the Investment Manager believes are appropriate for the Trust are described in Note 3 to the unaudited interim financial statements.

On behalf of the Investment Manager

Scott Reid

August 27, 2014
Date

NOTICE TO UNITHOLDERS

The Auditors of the Trust have not reviewed these financial statements.

Computershare Trust Company of Canada, the Trustee of the Trust, appointed an independent auditor, who was confirmed by the unitholders, to audit the Trust's annual financial statements. Applicable securities laws require that if an auditor has not reviewed the Trust's interim financial statements, this must be disclosed in an accompanying notice.

RAVENSOURCE FUND

Statements of Financial Position

(Unaudited)

	June 30, 2014	December 31, 2013	January 1, 2013
Assets			
Current assets			
Cash and equivalents	$ 5,810,211	$ 6,771,779	$ 5,742,836
Financial assets designated at fair value through profit or loss (Note 3a,b) (cost - 2014: $13,852,609; Dec 31, 2013: $13,165,644; Jan 1, 2013: $12,865,695)	19,654,643	13,509,610	11,964,794
Financial assets held for trading (Note 3a,b) (cost - 2014: nil ; Dec 31, 2013: $271,967; Jan 1, 2013: $271,967)	–	2,554,733	793,815
Interest and dividends receivable	71,315	53,686	40,892
	25,536,169	22,889,808	18,542,337
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	39,397	54,238	66,743
Management and administrative fees payable (Note 4b,c)	39,504	44,227	–
Incentive fees payable (Note 4d)	739,525	891,886	131,117
	818,426	990,351	197,860
Net Assets Attributable To Holders Of Redeemable Units	$ 24,717,743	$ 21,899,457	$ 18,344,477
Number of Redeemable Units Outstanding (Note 6)	1,700,470	1,700,470	1,700,470
Net Assets Attributable To Holders Of Redeemable Units per Unit	$ 14.54	$ 12.88	$ 10.79

Approved on behalf of the Trust

Scott Reid Investment Manager

Stornoway Portfolio Management Inc.

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

RAVENSOURCE FUND

Statements of Comprehensive Income

For the six month period ended June 30 (Unaudited)

	2014	2013
Income:		
Interest income for distribution purposes	$ 231,464	$ 112,615
Dividends and income trust distributions	180,616	182,783
Net changes in fair value on financial assets at fair value through profit or loss: (Note 11)		
Net realized gain on financial assets, including foreign exchange adjustments	361,561	789,021
Net change in unrealized gain on financial assets	3,209,685	1,278,060
	3,983,326	2,362,479
Expenses:		
Management fees (Note 4b)	85,509	70,468
Administrative fees (Note 4c)	46,043	37,944
Impact of management and administrative fee reductions (Note 4a)	(63,060)	(60,186)
Incentive fee (Note 4d)	739,525	393,789
Investor relations fees (Note 4e)	6,724	6,724
Transaction costs	19,909	2,594
Listing fees	13,779	12,397
Audit fees	13,466	13,389
Trust administration and transfer agency fees	12,893	13,500
Accounting fees	11,095	10,423
Legal fees	9,666	45,511
Other professional fees	6,379	4,314
Other expenses	3,764	4,403
Independent review committee fees	2,975	3,800
Withholding tax	1,302	1,214
	909,969	560,284
Increase in Net Assets Attributable to Holders of Redeemable Units	$ 3,073,357	$ 1,802,195
Increase in Net Assets Attributable to Holders of Redeemable Units, per Unit:	$ 1.81	$ 1.06

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

RAVENSOURCE FUND

Statements of Changes In Net Assets Attributable to Holders of Redeemable Units

For the six month period ended June 30 (Unaudited)

	2014	2013
Net assets attributable to holders of redeemable units, beginning of period:	$ 21,899,457	$ 18,344,477
Increase in net assets attributable to holders of redeemable units:	3,073,357	1,802,195
Capital transactions:		
Distributions to holders of redeemable units (Note 5d)	(255,071)	(153,042)
Net assets attributable to holders of redeemable units, end of period:	$ 24,717,743	$ 19,993,630

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

RAVENSOURCE FUND

Schedule of Investments

June 30, 2014 (Unaudited)

Number of shares/units	Investments, owned	Average cost	Fair value	Fair value as % of net asset value
		$	$	
Canadian equities:				
47,700	Canwel Holdings Corp.	341,059	272,843	1.10%
228,100	Chinook Energy Inc.	478,156	501,820	2.03%
19,200	Clairvest Group Inc.	234,321	445,632	1.80%
1,000	Crystallex International Corp.	90	76	0.00%
1,000,000	CVTech Group Inc.	881,250	830,000	3.36%
200,000	Donnycreek Energy Inc.	498,610	512,000	2.07%
40,000	Fiera Sceptre Inc.	173,300	509,600	2.06%
140,375	Glacier Media Inc.	368,989	190,910	0.77%
100,000	GLV Inc.	276,500	340,000	1.38%
21,100	GVIC Comm - Class B	17,091	6,541	0.03%
22,500	GVIC Comm - Class C	18,045	5,850	0.02%
17,900	Indigo Books & Music Inc.	90,872	187,950	0.76%
2,362,500	Melior Resources Inc.	271,735	283,500	1.15%
58,400	NuVista Energy Ltd.	312,183	697,880	2.82%
248,033	Plazacorp Retail Properties Ltd	297,640	1,007,014	4.07%
58	Specialty Foods Group	239,967	2,822,014	11.42%
274,200	Supremex Inc.	624,622	712,920	2.88%
87,300	Ten Peaks Coffee Company Inc.	247,112	366,660	1.48%
245,500	Tuscany International Drilling Inc.	303,379	1,573	0.01%
45,400	Winpak Ltd.	295,252	1,125,920	4.56%
		5,970,173	10,820,703	43.77%
U.S. equities:				
75,000	Genworth Financial Inc.	441,137	1,392,417	5.63%
13,157	Quad Graphics	595,635	313,937	1.27%
1,323,256	SeaCo Ltd.	-	283	0.00%
		1,036,772	1,706,637	6.90%

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

RAVENSOURCE FUND

Schedule of Investments (continued)

June 30, 2014 (Unaudited)

Number of shares/units	Investments, owned	Average cost	Fair value	Fair value as % of net asset value
		$	$	
Fixed income:				
178,000	Anderson Energy Ltd. 7.50% due Jan 31, 2016	116,368	147,740	0.60%
16,000	Anderson Energy Ltd. 7.25% due Jun 30, 2017	9,780	12,880	0.05%
2,000	Arcan Resources Ltd. 6.25% due Feb 28, 2016	1,103	1,650	0.01%
2,027,000	Arcan Resources Ltd. 6.50% due Oct 31, 2018	1,207,376	1,641,870	6.64%
300,000	Connacher Oil & Gas Ltd. 8.75% due Aug 1, 2018	223,500	237,000	0.96%
3,050,000	Crystallex International Corp. 9.375% due Dec 30, 2011 *	1,514,544	2,116,517	8.56%
1,000,000	Delphi Holdings Corp. 6.55% due Jun 15, 2006 *	732,498	32,028	0.13%
61,000	Exall Energy Corp. 7.75% due Mar 31, 2017	21,426	21,704	0.09%
9,000	Gasfrac Energy Services Inc. 7% due Feb 28, 2017	6,311	7,650	0.03%
1,050,000	Great Basin Gold Ltd. 8% due Nov 30, 2014	203,500	2,625	0.01%
2,235,300	Ivanhoe Energy Inc. 5.75% due Jun 30, 2016	1,276,134	944,414	3.82%
2,011,100	Tuckamore Capital Management 8% due Mar 23, 2016	1,533,124	1,961,225	7.93%
		6,845,664	7,127,303	28.83%
Net investments owned		13,852,609	19,654,643	79.52%
Brokerage commission		(40,544)	-	-
Total portfolio of Investments		**13,812,065**	19,654,643	79.52%
Other net assets			5,063,100	20.48%
Net Assets Attributable To Holders Of Redeemable Units			**24,717,743**	**100.00%**

* Defaulted

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

RAVENSOURCE FUND

Statements of Cash Flows

For the six month period ended June 30 (Unaudited)

	2014	2013
Cash flow from operating activities		
Increase in net assets attributable to holders of redeemable units, for the period	$ 3,073,357	$ 1,802,195
Adjustments for non-cash items:		
Net realized gain on investment transactions	(361,561)	(789,021)
Change in unrealized depreciation in value of investments	(3,209,685)	(1,278,060)
Change in non-cash balances:		
Increase in interest and dividends receivable	(17,629)	(102,853)
Increase (decrease) in accounts payable and accrued liabilities	(14,840)	38,249
Increase (decrease) in incentive, management and administrative fees payable	(157,084)	381,874
Proceeds from sale of investments	3,553,914	1,031,848
Purchase of investments	(3,582,579)	(1,067,274)
Net cash flow from operating activities	(716,107)	16,958
Cash flow from financing activities		
Distributions paid to holders of redeemable units, net of reinvested distributions	(255,071)	(153,042)
Net cash flow from financing activities	(255,071)	(153,042)
Decrease in cash and equivalents during the period	(971,178)	(136,084)
Foreign exchange gain on cash	9,610	35,800
Cash and equivalents, beginning of period:	6,771,779	5,742,836
Cash and equivalents, end of period:	$ 5,810,211	$ 5,642,552
SUPPLEMENTAL INFORMATION:		
Interest received	$ 13,610	$ 12,709
Dividends received	169,100	167,489

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

1. Trust organization and nature of operations:

The Ravensource Fund (the "Trust") is a closed-end investment trust which was created under the laws of the Province of Ontario pursuant to a Declaration of Trust, dated April 28, 1997, as amended January 15, 2001 and as further amended and restated as at August 22, 2003 and as at July 1, 2008 (the "Declaration of Trust"). The Trust's units are listed on the Toronto Stock Exchange ("RAV.UN").

Computershare Trust Company of Canada acts as trustee for the Trust (the "Trustee"). At a special meeting of the Trust's unitholders, Stornoway Portfolio Management Inc., an Ontario corporation, was appointed as the investment manager ("Investment Manager") of the Trust, effective July 1, 2008. The Trust's principal place of business is located at 30 St. Clair Avenue West, Suite 901, Toronto, Ontario, M4V 3A1.

The Investment Manager provides portfolio management and administrative services to the Trust, subject to the overall supervision of the Trustee. The Investment Manager is authorized to invest and reinvest the Trust's assets and make investment decisions on behalf of the Trust. Senior executives of the Investment Manager own 182,153 (December 31, 2013 - 185,753) units, representing 10.7% (December 31, 2013 - 10.9%) of the outstanding units as at June 30, 2014.

The capital of the Trust is represented by the net asset attributable to holders of redeemable units of the Trust, and is comprised of investments, and cash and equivalents offset by liabilities of the Trust. As more fully outlined in the Declaration of Trust, the principal investment objective of the Trust is to achieve absolute annual returns, with an emphasis on capital gains, through investment in selected North American securities. The Trust will invest its property primarily in North American high yield and distressed debt securities, and in equity securities. The success of the Trust depends on the investment decisions of the Investment Manager and will be influenced by a number of risk factors including liquidity risk, market risks, investment in options, and leverage from borrowed funds.

These interim financial statements were authorized for issue by the Investment Manager on August 27, 2014.

2. Basis of presentation and adoption of IFRS:

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and IFRS 1, First-time Adoption of International Financial Reporting Standards. The Trust adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Trust prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in the Part V of the CICA Handbook ("Canadian GAAP"). The comparative information has been restated from Canadian GAAP to comply with IFRS. The Trust has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 15 discloses the impact of the transition to IFRS on the Trust's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Trust's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 27, 2014, which is the date on which the interim financial statements were authorized for issue by the Manager. Any subsequent changes to IFRS that are given effect in the Trust's annual financial statements for the year ending December 31, 2014 could result in restatement of these interim financial statements, including the transition adjustments recognized on transition to IFRS.

3. Significant accounting policies:

The following new standards and amendments to existing standards were issued by the International Accounting Standards Board ("IASB"):

In November 2009, IFRS 9 Financial Instruments ("IFRS 9") was issued and subsequently amended in October 2010. This is the first phase of the project on classification and measurement of financial assets and liabilities. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and will be completed in three phases, which includes limited amendments to classification and measurement of financial assets and liabilities , impairment of financial assets, and general hedge accounting. Accounting for macro hedging was removed from IFRS 9 and is expected to be issued as a separate standard. The effective date of IFRS 9 is January 1, 2018. The standard on general hedge accounting was issued and included as part of IFRS 9 in November 2013. The Manager is currently assessing the impact of the adoption of these amendments on the financial statements.

3. Significant accounting policies (continued):

Amendments to IAS 32 *Offsetting financial assets and financial liabilities*

The amendments are effective for annual periods beginning on or after January 1, 2014. These amendments clarify the offsetting criteria in IAS 32 and address inconsistencies in their application. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not expected to have any impact on the Trust's financial position or performance.

The following is a summary of the significant accounting policies followed by the Trust:

(a) Valuation of investments:

Securities listed upon a recognized public stock exchange are valued at their bid prices on the valuation dates. In a situation where, in the opinion of the Investment Manager, a market quotation for a security is inaccurate, unreliable, or not readily available, the fair value of the security is estimated using valuation techniques generally used in the industry. These techniques take into account market factors, valuation of similar securities, and interest rates.

Short-term notes, treasury bills, bonds, asset backed securities, and other debt instruments traded in over-the-counter markets are valued at bid quotations provided by recognized investment dealers.

Securities not listed upon a recognized public stock exchange or not traded in over-the-counter markets are valued using valuation techniques which take into account market factors, valuation of similar securities, and interest rates.

(b) Classification:

The Trust classifies its investments in debt and equity securities and derivatives as financial assets and financial liabilities at fair value through profit or loss.

This category has two sub-categories: financial assets or financial liabilities held for trading; and those designated at fair value through profit or loss at inception.

3. Significant accounting policies (continued):

(i) Financial assets and financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives, including warrants, and options, are categorised as held for trading regardless of the Trust's intention to hold the security for a prolonged period of time. The Trust does not classify any derivatives as hedges in a hedging relationship.

(ii) Financial assets and financial liabilities designated at fair value through profit or loss at inception ("FVTPL")

Financial assets and financial liabilities classified as FVTPL are financial instruments that are not classified as held for trading and their performance is evaluated on a fair value basis in accordance with the Trust's documented investment strategy.

The Trust recognizes financial instruments at fair value plus transaction costs. Purchases and sales of financial assets are recognized at their trade date. Aside from its holdings of warrants and other derivative investments, the Trust's investments have been designated FVTPL. The Trust's obligation for "net assets attributable to holders of redeemable units" is presented on the financial statements at the redemption amount as determined according to the Declaration of Trust. All other financial assets and financial liabilities are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Trust's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value (Trading NAV) for transactions with unitholders.

(c) Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business the Trust enters into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or termination of the contracts.

3. Significant accounting policies (continued):

(d) Recognition/derecognition:

The Trust recognizes financial assets or financial liabilities designated as trading securities on a trade date basis – the date it commits to purchase or sell the instruments. From this date any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statements of comprehensive income.

Other financial assets are derecognized when, and only when, the contractual rights to the cash flows from the asset expire; or when the Trust transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Trust derecognizes financial liabilities when, and only when, the Trust's obligations are discharged, cancelled or they expire.

(e) Investment transactions and income recognition:

Investment transactions are accounted for on the trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

The interest for distribution purposes shown on the statements of comprehensive income represents the coupon interest received by the Trust accounted for on an accrual basis. The Trust does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis.

Realized gain/loss on sale of investments and unrealized appreciation/depreciation in investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

(f) Income taxes:

The Trust is taxable as a mutual fund trust under the Income Tax Act (Canada) on its income, including net realized capital gains in the taxation year, which is not paid or payable to its unitholders as at the end of the taxation year. It is the intention of the Trust to distribute all of its net income and sufficient net realized capital gains so that the Trust will not be subject to income taxes.

3. Significant accounting policies (continued):

(g) Foreign currency translation:

Transactions in currencies other than the Canadian dollar are translated at the rate of exchange prevailing at the transaction date. Assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting date. Resulting exchange differences are recognized in the Statements of Comprehensive Income.

(h) Transaction costs:

Transaction costs are expensed and are included in the statement of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

(i) Use of estimates:

The preparation of financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

(j) Cash and cash equivalents:

Cash and equivalents represent cash positions as well as any trades that are in transit as at June 30, 2014.

(k) Net asset attributable to holders of redeemable units per unit:

The Net Assets attributable to holders of redeemable units per unit is calculated by dividing the Net Assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class outstanding at the end of the period.

3. Significant accounting policies (continued):

(l) Increase net asset attributable to holders of redeemable units per unit:

Increase in Net Assets attributable to holders of redeemable units per unit is based on the increase in Net Assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the period. Refer to Note 12 for the calculation.

4. Related party transactions:

(a) Specialty Foods Group Inc. Services Agreement:

The Trust has an investment in the securities of Specialty Foods Group Inc. ("SFG"). Another fund managed by the Investment Manager also has an investment in SFG securities. During 2012, the Investment Manager entered into a services agreement with SFG (the "SFG Services Agreement"), whereby the Investment Manager is to provide strategic advice and analysis to SFG and in return will earn a fee for these services. As per its internal policy and approved by the Trust's Independent Review Committee, the Investment Manager reduced the management fees and administrative fees that it charges to the Trust in order to pass along the economic benefit of the fees earned by the Investment Manager from the SFG Services Agreement in an amount proportionate to the Trust's relative investment in SFG securities. During the 6 months ended June 30, 2014, the Investment Manager reduced management fees by $36,206 (June 30, 2013 - $34,620) and reduced administrative fees by $19,599 (June 30, 2013 – $18,642), which fees and costs would have been subject to HST. Therefore, the total impact of fee reductions amounted to $63,060 inclusive of HST (June 30, 2013 - $60,186). The Investment Manager will continue to reduce the management fee and administrative fees accordingly, for so long as the Trust is invested in SFG securities and the Investment Manager continues to receive fees under the SFG Services Agreement.

4. Related party transactions (continued):

(b) Management fees:

The management fee payable to the Investment Manager is based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Management fee
Up to and including $250 million	0.65% plus HST
Between $250 million and $500 million	0.60% plus HST
$500 million and more	0.55% plus HST

The net management fees for 6 months ended June 30th, 2014 amounted to $44,596 (2013 - $31,347). The Investment Manager reduced the net management fees by $36,206 (2013 - $34,620), as described in further detail in (a). In the absence of the net management fee reduction, total net management fees for 6 months ended June 30th, 2014 would have amounted to approximately $85,509, inclusive of HST (2013 - $70,468). The net management fee payable as June 30, 2014 amounted to $25,829 including HST (December 31, 2013 - $28,823, January 1, 2013 - $nil).

(c) Administrative fees:

Subject to the supervision of the Trustee, the Investment Manager agrees to be responsible for and provide certain administrative services to the Trust. The Trust will pay the Investment Manager a fee based on the Trust's average weekly net assets attributable to holders of redeemable units at the end of each week and payable on the last business day of each calendar month as follows:

Average weekly net assets attributable to holders of redeemable units	Administrative fee
Up to and including $250 million	0.35% plus HST
Between $250 million and $500 million	0.30% plus HST
$500 million and more	0.25% plus HST

The net administrative fees for 6 months ended June 30th, 2014 amounted to $23,896 (2013 - $16,879). The Investment Manager reduced the net administrative fee by $19,599 (2013 - $18,642), as described in further detail in (a). In the absence of the net administrative fee reduction, total net administrative fees for 6 months ended June 30th, 2014 would have amounted to approximately $46,043, inclusive of HST (2013 - $37,944). The net administrative fee payable as June 30, 2014 amounted to $13,675 including HST (December 31, 2013 - $15,404, January 1, 2013 - $nil).

4. Related party transactions (continued):

(d) Incentive fee:

An incentive fee will be payable to the Investment Manager in any year, equal to 20% of the amount by which the net asset attributable to holders of redeemable units per unit at the end of the year, adjusted for contributions, distributions and redemptions during the year, exceeds the net asset attributable to holders of redeemable units per unit at the beginning of the year by more than 5%, plus any shortfall from the prior year. This fee is accrued monthly but calculated and paid annually. Incentive fees expense for the 6 months ended June 30th, 2014 amounted to $739,525, inclusive of HST (2013 - $393,789). The accrued incentive fee payable as June 30, 2014 amounted to $739,525 including HST (December 31, 2013 - $891,886, January 1, 2013 - $131,117).

(e) Investor relations fees:

The Investment Manager is paid a monthly investor relations fee of $1,000 plus applicable sales tax for unitholder reporting and other services provided under a service agreement. The aggregate investor relations fee for 6 months ended June 30th, 2014 amounted to $6,724, inclusive of HST (2013 - $6,724).

(f) Other related party transactions:

Certain members of the Investment Committee and their affiliated entities (excluding senior executives of the Investment Manager and their affiliates) are unitholders in the Trust. At June 30, 2014, such related parties held 722,790 (December 31, 2013 – 722,790) units representing approximately 42.5% (December 31, 2013 – 42.5%) of the redeemable units of the Trust.

5. Unitholders' entitlements:

The unitholders' entitlements with respect to the net assets attributable to holders of redeemable units and distribution of income are generally as follows:

(a) Entitlement in respect of net assets attributable to holders of redeemable units:

A pro rata share of the net assets attributable to holders of redeemable units of the Trust in the proportion that each unitholders' equity bears to the aggregate unitholders' equity.

(b) Tax designations and elections:

The Trustee shall file all tax returns, on behalf of the Trust, required by law.

(c) Redemption of redeemable units:

By delivering an Annual Redemption Request to be received by the Trust's registrar and transfer agent on or before the twentieth business day prior to the applicable Annual Redemption Date, being the valuation date following August 31 in any year, subject to compliance with applicable laws and the provisions, unitholders shall be entitled to require the Trust to redeem some or all of their units outstanding at net asset attributable to holders of redeemable units as of the Annual Redemption Date.

(d) Distributions:

The Trust intends to make semi-annual distributions to unitholders of record as of the last valuation date of each of June and December in each calendar year, of such amount per unit as the Trustee, upon consultation with the Investment Manager, may determine. It is anticipated that the annual distribution will be at least equal to the net capital gains plus the net income of the Trust for that year, net of any tax losses brought forward from prior years.

During the period, the Trust made a \$0.15 (June 30, 2013 - \$0.09) per unit for a total amount of \$255,071 (June 30, 2013 - \$153,042).

As at December 31, 2013 the Trust had cumulative net capital losses of \$17,769,037 for income tax purposes that may be carried forward and applied to reduce future net capital gains.

6. Redeemable units of the Trust:

The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets attributable to holders of redeemable units of the Trust. Each redeemable unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. The redemption price per unit will be equal to the net asset attributable to holders of redeemable units per unit calculated on the redemption date.

6 months ended June 30	2014	2013
Redeemable units, beginning of period	1,700,470	1,700,470
Redeemable units tendered for redemption	–	–
Recirculation of redeemable units tendered for redemption	–	–
Redeemable units, end of period	1,700,470	1,700,470

7. Expenses:

The Investment Manager has the power to incur and make payment out of the Trust's property any charges or expenses which, in the opinion the Investment Manager, are necessary or incidental to, or proper for, carrying out any of the purposes of the Declaration of Trust, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust will be responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

8. Indemnification of the Investment Manager:

The Trust has indemnified the Investment Manager (and each of its directors and officers) from and against all liabilities and expenses, reasonably incurred by the Investment Manager, other than liabilities and expenses incurred as a result of the Investment Manager's willful misconduct, bad faith or negligence. There were no claims or expenses against the Investment Manager requiring indemnification during the period ended June 30, 2014.

9. Financial instruments risk management:

Managing the risks of the investment portfolio is a critical element of the investment management process. The Investment Manager's overall risk management process seeks to minimize the potentially adverse effect of risk on its financial performance in a manner that is consistent with the Trust's investment mandate. To accomplish this goal, the Investment Manager utilizes a range of well-established tools and methods to manage the risk of the Trust.

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objectives and the type of securities it invests in.

(a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust. Where the Trust invests in debt instruments and derivatives, this represents the main concentration of credit risk. The market value of debt instruments and derivatives includes consideration of the creditworthiness of the issuer and, accordingly, represents the majority of the credit risk exposure of the Trust. As at June 30, 2014, market value of the Trust's debt portfolio was $7.1 million (28.8% of net assets attributable to holders of redeemable units) ((December 31, 2013 - $4.7 million (21.3% of net assets attributable to holders of redeemable units), January 1, 2013 - $2.9 million (15.6% of net assets attributable to holders of redeemable units)), and comprised non-rated bonds (19.1%, 15.9% and 7.5% of net assets attributable to holders of redeemable units for June 30, 2014, December 31, 2013 and January 1, 2013, respectively), defaulted bonds (8.7%, 4.5% and 7.0% of net assets attributable to holders of redeemable units for June 30, 2014, December 31, 2013 and January 1, 2013, respectively) and B-rated bonds (1.0%, 1.0% and 1.1% of net assets attributable to holders of redeemable units for June 30, 2014, December 31, 2013 and January 1, 2013, respectively).

All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold takes place once the broker has received payment, and purchases are paid for once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

9. Financial instruments risk management (continued):

(b) Liquidity risk:

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligations on time or at a reasonable price.

The Trust's exposure to liquidity risk primarily relates to annual redemption of units. Other than the high yield and defaulted bonds, the Trust primarily invests in equity securities that are traded in active markets and can be readily disposed of. In addition, the Trust retains sufficient cash to maintain liquidity.

(c) Market risk:

(i) Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than the Canadian dollar, which represents the functional and presentational currency of the Trust. The Trust may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies. The Trust's exposure to another currency is as follows:

June 30, 2014	**Exposure**			**Impact on net assets attributable to holders of redeemable units**		
Currency	**Cash and Equivalents**	**Investments**	**Total**	**Cash and Equivalents**	**Investments**	**Total**
United States Dollar	$ 145,782	$ 6,677,196	$ 6,822,978	$ 1,458	$ 66,772	$ 68,230
% of net assets attributable to holders of redeemable units	0.59	27.02	27.61	0.01	0.27	0.28

December 31, 2013	**Exposure**			**Impact on net assets attributable to holders of redeemable units**		
Currency	**Cash and Equivalents**	**Investments**	**Total**	**Cash and Equivalents**	**Investments**	**Total**
United States Dollar	$ 478,512	$ 5,118,715	$ 5,597,227	$ 4,785	$ 51,187	$ 55,972
% of net assets attributable to holders of redeemable units	2.19	23.37	25.56	0.02	0.24	0.26

9. Financial instruments risk management (continued):

January 1, 2013	Exposure			Impact on net assets attributable to holders of redeemable units		
Currency	Cash and Equivalents	Investments	Total	Cash and Equivalents	Investments	Total
United States Dollar	$ 303,119	$ 3,709,850	$ 4,012,969	$ 3,031	$ 37,099	$ 40,130
% of net assets attributable to holders of redeemable units	1.65	20.23	21.88	0.02	0.20	0.22

As at June 30, 2014, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to holders of redeemable units would have decreased or increased, respectively, by approximately 0.28% ($68,230) (December 31, 2013 – 0.26% ($55,972), January 1, 2013 – 0.22% ($40,130)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

(ii) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is no sensitivity to interest rate fluctuations on any cash balances.

As the Trust has significant exposure to high yield and defaulted bonds with no exposure to government bonds, its bond investments tend to be affected more by changes in overall economic growth and company-specific fundamentals rather than changes in interest rates. However, high yield bonds do have a degree of interest rate risk, which is illustrated in the table below.

As at June 30, 2014, the Trust's exposure to debt instruments by maturity and the impact on its net asset attributable to holders of redeemable units if the yield curve is shifted in parallel by an increase of 25 basis points ("bps"), holding all other variables constant ("sensitivity"), would be as follows:

9. Financial instruments risk management (continued):

	June 30, 2014	December 31, 2013	January 1, 2013
Market* by maturity date			
1 year or less	-	-	-
1-3 years	3,076,733	2,722,771	-
3-5 years	1,899,400	953,985	1,373,940
More than 5 years	-	-	205,125
Sensitivity to 25bps yield change increase or decrease net assets	28,246	20,885	10,821

* Excludes cash and defaulted bonds.

In practice, actual results may differ from the above sensitivity analysis and the difference could be material.

(iii) Other price risk:

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from credit risk, interest rate risk or currency risk). All investments represent a risk of loss of capital. The Investment Manager of the Trust moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Trust's investment objectives and strategy. The Trust's overall market positions are monitored on a regular basis by the Investment Manager.

As at June 30, 2014, 58.5% (December 31, 2013 – 56.4%, January 1, 2013 – 57.2%) of the Trust's net assets attributable to holders of redeemable units were invested in securities traded on North American stock exchanges. If security prices on the North American stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately 5.85% ($1,444,445) (December 31, 2013 – 5.64% $1,235,013, January 1, 2013 – 5.72% $1,050,022). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

10. Fair value measurements:

Financial instruments are measured at fair value using a three-tier hierarchy based on inputs used to value the Trust's investments. The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in public markets for identical assets or liabilities;
- Level 2 - dealer quoted prices in over-the-counter markets for identical assets or liabilities, or inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level. The following table presents the Trust's financial instruments that have been measured at fair value, on a recurring basis:

June 30, 2014	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	$ 4,739,133	$ 2,388,246	$ –	$ 7,127,379
Equities	9,705,250	–	2,822,014	12,527,264
	$ 14,444,383	$ 2,388,246	$ 2,822,014	$ 19,654,643

December 31, 2013	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	$ 3,472,756	$ 1,200,063	$ –	$ 4,672,819
Equities	8,836,791	–	–	8,836,791
Warrants and options	43,200	–	2,511,533	2,554,733
	$ 12,352,747	$ 1,200,063	$ 2,511,533	$ 16,064,343

January 1, 2013	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	$ 1,373,939	$ 1,486,974	$ –	$ 2,860,913
Equities	9,103,881	–	–	9,103,881
Warrants and options	22,400	–	771,415	793,815
	$ 10,500,220	$ 1,486,974	$ 771,415	$ 12,758,609

10. Fair value measurements (continued):

The Trust did not have any transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy in 2014.

The table below shows a reconciliation of the opening and closing balance of financial instruments recorded in Level 3:

	Beginning of period, January 1, 2014	Realized fair value gain	Unrealized fair value gain (loss)	Sales or purchases	End of period, June 30, 2014
Specialty Foods Group - warrant	$ 2,511,533	$ –	$ –	$ (2,511,533)	$ –
Specialty Foods Group - equity	$ –	$ –	$ 310,481	$ 2,511,533	$ 2,822,014
	$ 2,511,533	$ –	$ 310,481	$ –	$ 2,822,014

	Beginning of year, January 1, 2013	Realized fair value gain	Unrealized fair value gain (loss)	Sales or purchases	End of year, December 31, 2013
Specialty Foods Group - warrant	$ 771,415	$ –	$ 1,740,118	$ –	$ 2,511,533
	$ 771,415	$ –	$ 1,740,118	$ –	$ 2,511,533

	Beginning of year, January 1, 2012	Realized fair value loss	Unrealized fair value gain (loss)	Sales or purchases	End of year, December 31, 2012
Specialty Foods Group - warrant	$ –	$ –	$ 531,448	$ 239,967	$ 771,415
Specialty Foods Group - 8% bonds	1,779,750	(144,543)	–	(1,635,207)	–
	$ 1,779,750	$ (144,543)	$ 531,448	$ (1,395,240)	$ 771,415

The table below sets out information about significant unobservable inputs used at June 30, 2014 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value at June 30 2014	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes insignificant unobservable inputs
Unlisted private equity investments	$ 2,822,014	Present value of expected future distributions received	EBITDA multiple	4.5x EBITDA. No alternative assumption to disclose.	The estimated fair value would increase increase (decrease) by $137,913 or 4.9% for each 0.5x increase (decrease) in the EBITDA multiple.
			Discount rate	15% discount rate. No alternative assumption to disclose.	The estimated fair value would increase increase (decrease) by $17,925 or 0.6% for each 100 basis point decrease (increase) in the discount rate.

10. Fair value measurements (continued):

Financial instruments not measured at fair value

The financial instruments not measured at fair value through profit or loss are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.

The following table sets out the fair values of financial instruments not measured at fair value and analyses it by the level in the fair value hierarchy into which each fair value measurement is categorised.

June 30, 2014	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and equivalents	$ 5,810,211	$ –	$ –	$ 5,810,211
Interest and dividends receivable	–	71,315	–	71,315
	$ 5,810,211	$ 71,315	$ –	$ 5,881,526
Financial liabilities				
Accounts payable and accrued liabilities	$ –	$ 39,397	$ –	$ 39,397
Management and administrative fees payable	–	39,504	–	39,504
Incentive fees payable	–	739,525	–	739,525
Net Assets Attributable To Holders Of Redeemable Units	–	24,717,743	–	24,717,743
	$ –	$ 25,536,169	$ –	$ 25,536,169

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and equivalents	$ 6,771,779	$ –	$ –	$ 6,771,779
Interest and dividends receivable	–	53,686	–	53,686
	$ 6,771,779	$ 53,686	$ –	$ 6,825,465
Financial liabilities				
Accounts payable and accrued liabilities	$ –	$ 54,238	$ –	$ 54,238
Management and administrative fees payable	–	44,227	–	44,227
Incentive fees payable	–	891,886	–	891,886
Net Assets Attributable To Holders Of Redeemable Units	–	21,899,457	–	21,899,457
	$ –	$ 22,889,808	$ –	$ 22,889,808

10. Fair value measurements (continued):

January 1, 2013	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and equivalents	$ 5,742,836	$ –	$ –	$ 5,742,836
Interest and dividends receivable	–	40,892	–	40,892
	$ 5,742,836	$ 40,892	$ –	$ 5,783,728
Financial liabilities				
Accounts payable and accrued liabilities	$ –	$ 66,743	$ –	$ 66,743
Management and administrative fees payable	–	–	–	–
Incentive fees payable	–	131,117	–	131,117
Net Assets Attributable To Holders Of Redeemable Units	–	18,344,477	–	18,344,477
	$ –	$ 18,542,337	$ –	$ 18,542,337

The assets and liabilities included in the above table are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

Cash and equivalents and other receivables include the contractual amounts for settlement of trades and other obligations due to the Trust. Accruals represent the contractual amounts and obligations due by the Trust for settlement of trades and expenses.

The redemption value of redeemable units is calculated based on the net difference between total assets and all other liabilities of the Trust in accordance with the Declaration of Trust. The units are redeemable annually, at the holders' option, for cash equal to the proportionate share of the Trust's net asset value attributable to the share class as described in the Declaration of Trust and in Note 5(c) of these financial statements.

11. Net gain from financial assets at fair value through profit or loss

6 months ended June 30	2014	2013
Net realized gain on financial assets:		
Financial assets held for trading	$ 30,480	$ -
Financial assets designated at fair value through profit and loss	331,081	789,021
	361,561	789,021
Net change in unrealized gain on financial assets:		
Financial assets held for trading	(11,200)	1,095,413
Financial assets designated at fair value through profit and loss	3,220,885	182,647
	3,209,685	1,278,060
	$3,571,246	$2,067,081

The realized gain from financial assets at fair value through profit or loss represents the difference between the carrying amount of the financial asset at the beginning of the reporting period, or the transaction price if it was purchased during the reporting period, and its sale or settlement price.

The unrealized gain represents the difference between the carrying amount of a financial asset at the beginning of the reporting period, or the transaction price if it was purchased during the reporting period, and its carrying amount at the end of the reporting period.

12. Increase in net assets attributable to holders of redeemable units per unit

The increase in net assets attributable to holders of redeemable units per unit for the period ended June 30, 2014 and 2013 is calculated as follows:

	2014	2013
Increase in net assets attributable to holders of redeemable units	$ 3,073,357	$ 1,802,195
Weighted average of redeemable units outstanding during the period	1,700,470	1,700,470
Increase in net assets attributable to holders of redeemable units per unit	$ 1.81	$ 1.06

13. Capital disclosures:

The Investment Manager has policies and procedures in place to manage the capital of the Trust in accordance with the Trust's investment objectives, strategies and restrictions, as detailed in the offering document. Information about the capital is described in the statement of changes in net assets attributable to holders of redeemable units and the Trust does not have externally imposed capital requirements.

14. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current period.

15. Transition to IFRS:

The effect of the Trust's transition to IFRS is summarized in this note as follows:

Exemptions and exceptions from full retrospective application
First-time adopters of IFRS must apply the provisions of IFRS 1. IFRS 1 requires adopters to retrospectively apply all IFRS standards as of the reporting date with certain optional exemptions and certain mandatory exceptions. As allowed under IFRS 1, the Fund elected to designate all investments at fair value through profit and loss which were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies. The Fund did not apply any other IFRS 1 exemptions or exceptions.

Statement of cash flows
Under Canadian GAAP, the Trust was exempt from providing a statement of cash flows. IAS 1 requires that a complete set of financial statements include a statement of cash flows for the current and comparative periods, without exception.

Classification of redeemable units issued by the Trust
Under Canadian GAAP, the Trust accounted for its redeemable units as equity. Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Trust's units do not meet the criteria in IAS 32 for classification as equity and therefore, have been reclassified as financial liabilities on transition to IFRS.

Revaluation of investments at FVTPL
Under Canadian GAAP, the Trust measured the fair values of its investments in accordance with Section 3855, Financial Instruments — Recognition and Measurement, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Trust measures the fair values of its investments using the guidance in IFRS 13, Fair Value Measurement (IFRS 13), which requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

15. Transition to IFRS (continued):

Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

The following is a reconciliation of amounts previously reported under Canadian GAAP to IRFS:

Equity	**December 31, 2013**	**June 30, 2013**	**January 1, 2013**
Equity as reported under Canadian GAAP	$ 21,899,457	$ 19,993,630	$ 18,344,477
Revaluation of investments at FVTPL	$ -	$ -	$ -
Net assets attributable to holders of redeemable units	**$ 21,899,457**	**$ 19,993,630**	**$ 18,344,477**

Comprehensive income	**Year ended December 31, 2013**	**Six-month ended June 30, 2013**
Comprehensive income as reported under Canadian GAAP	$ 3,963,093	$ 1,802,195
Revaluation of investments at FVTPL	$ -	$ -
Decrease in net assets attributable to holders of redeemable units	**$ 3,963,093**	**$ 1,802,195**