Financial Statements of

RAVENSOURCE FUND

Years ended December 31, 2014 and 2013

RAVENSOURCE FUND

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Years ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Ravensource Fund

We have audited the accompanying financial statements of Ravensource Fund, which comprise the statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years ended December 31, 2014 and December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ravensource Fund as at December 31, 2014, December 31, 2013 and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 3, 2015
Toronto, Canada

RAVENSOURCE FUND

Statements of Financial Position

December 31, 2014, December 31, 2013 and January 1, 2013

	December 31, 2014	December 31, 2013	January 1, 2013
Assets			
Cash and cash equivalents	$ 4,439,683	$ 6,771,779	$ 5,742,836
Financial assets designated at fair value through profit or loss (cost - $15,094,269; December 31, 2013 - $13,165,644; January 1, 2013 - $12,865,695) (note 3(a) and (b))	16,217,213	13,509,610	11,964,794
Financial assets held for trading (cost - nil; December 31, 2013 - $271,967; January 1, 2013 - $271,967) (note 3(a) and (b))	2,325	2,554,733	793,815
Interest and dividends receivable	82,271	53,686	40,892
	20,741,492	22,889,808	18,542,337
Liabilities			
Accounts payable and accrued liabilities	60,253	54,238	66,743
Management and administrative fees payable (note 4(b) and (c))	31,325	44,227	–
Incentive fees payable (note 4(d))	10,038	891,886	131,117
	101,616	990,351	197,860
Net assets attributable to holders of redeemable units	$ 20,639,876	$ 21,899,457	$ 18,344,477
Number of redeemable units outstanding (note 6)	1,676,270	1,700,470	1,700,470
Net assets attributable to holders of redeemable units per unit (note 5)	$ 12.31	$ 12.88	$ 10.79

See accompanying notes to financial statements.

Approved on behalf of the Trust:

Scott K

Stornoway Portfolio Management Inc. Investment Manager

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Statements of Comprehensive Income

Years ended December 31, 2014 and 2013

		2014		2013
Income:				
Interest income for distribution purposes	$	365,971	$	309,626
Dividends and income trust distributions		270,594		234,317
		636,565		543,943
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		773,994		1,632,007
Net change in unrealized gain (loss) on financial assets		(1,477,028)		3,006,941
		(703,034)		4,638,948
		(66,469)		5,182,891
Expenses:				
Management fees (note 4(b))		170,232		147,876
Administrative fees (note 4(c))		91,663		79,626
Impact of management and administrative fee reductions (note 4(a))		(116,703)		(103,960)
Incentive fee (note 4(d))		11,343		891,886
Investor relations fees (note 4(e))		13,560		13,560
Legal fees		31,992		76,237
Accounting fees		24,408		21,696
Trust administration and transfer agency fees		23,504		23,612
Audit fees		23,220		23,205
Listing fees		19,197		19,925
Other expenses		14,919		12,374
Independent review committee fees		7,600		7,600
Transaction costs		21,156		6,161
		336,091		1,219,798
Increase (decrease) in net assets attributable to holders of redeemable units	$	(402,560)	$	3,963,093
Average number of units outstanding		1,684,094		1,700,470
Increase (decrease) in net assets attributable to holders of redeemable units per unit	$	(0.24)	$	2.33

See accompanying notes to financial statements.

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

Years ended December 31, 2014 and 2013

	2014	2013
Net assets attributable to holders of redeemable units, beginning of year	$ 21,899,457	$ 18,344,477
Increase (decrease) in net assets attributable to holders of redeemable units	(402,560)	3,963,093
Capital transactions:		
Units tendered for redemption (note 5(c))	(350,510)	(948,945)
Recirculation of units tendered for redemption (note 5(c))	–	948,945
Distributions to holders of redeemable units (note 5(d))	(506,511)	(408,113)
	(857,021)	(408,113)
Net assets attributable to holders of redeemable units, end of year	$ 20,639,876	$ 21,899,457

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flow from operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units	$ (402,560)	$ 3,963,093
Adjustments for non-cash items:		
Net realized gain on investment transactions	(773,994)	(1,632,007)
Change in unrealized appreciation (depreciation) in value of investments	1,477,028	(3,006,941)
Change in non-cash balances:		
Increase in interest and dividends receivable	(28,585)	(12,794)
Increase (decrease) in accounts payable and accrued liabilities	6,015	(12,505)
Increase (decrease) in incentive, management and administrative fees payable	(894,750)	804,996
Proceeds from sale of investments	6,539,145	4,258,826
Purchase of investments	(7,419,666)	(2,969,638)
Net cash flow from (used in) operating activities	(1,497,367)	1,393,030
Cash flow from financing activities:		
Redemptions of redeemable units	(350,510)	–
Distributions paid to holders of redeemable units, net of reinvested distributions	(506,511)	(408,113)
Net cash flow used in financing activities	(857,021)	(408,113)
Increase (decrease) in cash and cash equivalents	(2,354,388)	984,917
Foreign exchange gain on cash	22,292	44,026
Cash and cash equivalents, beginning of year	6,771,779	5,742,836
Cash and cash equivalents, end of year	$ 4,439,683	$ 6,771,779
Supplemental information:		
Interest received	$ 411,386	$ 313,750
Dividends received	253,763	242,986

See accompanying notes to financial statements.

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Schedule of Investments

December 31, 2014

Number of shares/units	Investments, owned	Average cost	Fair value	Fair value % of net assets
Canadian equities:				
47,700	Canwel Holdings Corp.	$ 341,059	$ 282,861	1.37
228,100	Chinook Energy Inc.	478,156	287,406	1.39
1,000	Crystallex International Corp.	90	82	–
40,000	Fiera Capital Corp.	173,300	504,400	2.44
140,375	Glacier Media Inc.	368,989	210,563	1.02
21,100	GVIC Comm - Class B	17,091	6,330	0.03
22,500	GVIC Comm - Class C	18,045	5,625	0.03
8,800	Indigo Books & Music Inc.	44,675	103,400	0.50
240,000	Kicking Horse Energy Inc.	983,890	751,200	3.64
2,352,500	Melior Resources Inc.	270,585	211,725	1.03
1,000,000	NAPEC Inc.	881,250	890,000	4.31
655,000	Northern Frontier Corp.	1,187,071	248,900	1.21
58,400	NuVista Energy Ltd.	312,183	428,072	2.07
100,000	Ovivo Inc.	276,500	214,000	1.04
248,033	PlazaCorp Retail Properties Ltd.	297,640	1,004,534	4.87
174,200	Supremex Inc.	396,824	543,504	2.63
83,900	Ten Peaks Coffee Company Inc.	237,487	366,643	1.78
28,000	Tuckamore Capital Management Inc.	20,440	17,640	0.09
45,400	Winpak Ltd.	295,252	1,509,550	7.31
		6,600,527	7,586,435	36.76
U.S. equities:				
75,000	Genworth Financial Inc.	441,137	739,563	3.59
13,157	Quad Graphics	595,635	350,448	1.70
1,323,256	SeaCo Ltd.	–	307	–
58	Specialty Foods Group	239,967	3,622,844	17.55
		1,276,739	4,713,162	22.84

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Schedule of Investments (continued)

December 31, 2014

Number of shares/units	Investments, owned	Average cost	Fair value	Fair value % of net assets
Fixed income:				
244,000	Anderson Energy Ltd. 7.50%, due January 31, 2016	185,817	165,920	0.80
16,000	Anderson Energy Ltd. 7.25%, due June 30, 2017	9,780	8,480	0.04
317,000	Arcan Resources Ltd. 6.25%, due February 28, 2016	196,186	129,970	0.63
3,081,000	Arcan Resources Ltd. 6.50%, due October 31, 2018	2,027,474	1,232,400	5.97
300,000	Connacher Oil & Gas Ltd. 8.75%, due August 1, 2018	223,500	105,000	0.51
3,350,000	Crystallex International Corp. 9.375%, due December 30, 2011*	1,688,454	1,943,168	9.41
1,000,000	Delphi Holdings Corp. 6.55%, due June 15, 2006*	732,498	40,603	0.20
1,043,000	Exall Energy Corp. 7.75%, due March 31, 2017	352,036	73,010	0.35
9,000	Gasfrac Energy Services Inc. 7.00%, due February 28, 2017	6,311	2,723	0.01
4,284,000	Ivanhoe Energy Inc. 5.75%, due June 30, 2016*	1,776,834	216,342	1.05
		7,198,890	3,917,616	18.97
Warrants and options:				
465,000	Northern Frontier Corp. $3.40	–	2,325	0.01
Net investments owned		15,076,156	16,219,538	78.58
Brokerage commissions		18,113	–	–
Total portfolio of investments		$ 15,094,269	16,219,538	78.58
Other net assets			4,420,338	21.42
Net assets			$ 20,639,876	100.00

*Defaulted

See accompanying notes to 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 the Trust's assets and make investment decisions on behalf of the Trust. Senior executives of the Investment Manager own 187,153 (2013 - 185,753) units, representing 11.2% (2013 - 10.9%) of the outstanding units as at December 31, 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 cash 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 risk, investment in options, and leverage from borrowed funds.

2. Basis of presentation and adoption of IFRS:

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), including IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"). 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 Part V of the Chartered Professional Accountants of Canada 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 14 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 financial statements are based on IFRS issued and outstanding as of March 3, 2015, which is the date on which the financial statements were authorized for issue by the Investment Manager.

3. Significant accounting policies:

Accounting standard issued but not yet adopted:

The following new standard and amendments to existing standards were issued by the International Accounting Standards Board:

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 International Accounting Standard "(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 Investment Manager is currently assessing the impact of the adoption of these amendments on the financial statements.

3. Significant accounting policies (continued):

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 ("FVTPL").

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 categorized 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 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. 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 at 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 for transactions with unitholders.

(c) Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount reported in the statements 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.

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 expire.

(e) Income recognition:

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 rates of exchange prevailing at the transaction dates. Assets and liabilities denominated in currencies other than the Canadian dollar are translated at the applicable exchange rates prevailing at the reporting dates. The functional currency of the Trust is Canadian dollars. Resulting exchange differences are recognized in the statements of comprehensive income in net realized gain on financial statements.

(h) Transaction costs:

Transaction costs are expensed and are included in the statements 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 cash equivalents represent cash positions as well as any trades that are in transit as at December 31, 2014, December 31, 2013 and January 1, 2013.

(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 year.

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 year. 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. A senior executive of the Investment Manager is also a member of the board of directors of SFG. 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 year ended December 31, 2014, the Investment Manager reduced management fees by $67,063 (2013 - $59,775) and reduced administrative fees by $36,215 (2013 - $32,225), which fees and costs would have been subject to harmonized sales tax ("HST"). Therefore, the total impact of fee reductions amounted to $116,703 inclusive of HST (2013 - $103,960). 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 the year ended December 31, 2014 amounted to $94,451 (2013 - $80,330). The Investment Manager reduced the net management fees by $67,063 (2013 - $59,775), as described in further detail in (a). In the absence of the net management fee reduction, total net management fees for 2014 would have amounted to approximately $170,232, inclusive of HST (2013 - $147,876). The net management fee payable as of December 31, 2014 amounted to $17,283 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

4. Related party transactions (continued):

The net administrative fees for the year ended December 31, 2014 amounted to $50,741 (2013 - $43,211). The Investment Manager reduced the net administrative fee by $36,215 (2013 - $32,225), as described in further detail in (a). In the absence of the net administrative fee reduction, total net administrative fees for 2014 would have amounted to approximately $91,663, inclusive of HST (2013 - $79,626). The net administrative fee payable as December 31, 2014 amounted to $9,164 including HST (December 31, 2013 - $15,404; January 1, 2013 - nil).

(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 fee expense for the year ended December 31, 2014 amounted to $11,343 inclusive of HST (2013 - $891,886). The incentive fee payable as December 31, 2014 amounted to $11,343 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 the year ended December 31, 2014 amounted to $13,560, inclusive of HST (2013 - $13,560).

(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 December 31, 2014, such related parties held 722,790 (2013 - 722,790) units representing approximately 43.1% (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 year, the Trust made distributions of $0.15 per unit on June 30, 2014 and $0.15 per unit on December 30, 2014 for total distributions of $0.30 per unit (2013 - $0.24) or $506,511 (2013 - $408,113).

As at December 31, 2014, the Trust had cumulative net capital losses of $17,499,761 (2013 - $17,499,761) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

As at December 13, 2014, the Trust had non-capital losses of $85,810 (2013 - nil) for income tax purposes that may be carried forward and applied to reduce future taxable income.

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.

	2014	2013
Redeemable units, beginning of year	1,700,470	1,700,470
Redeemable units tendered for redemption	(24,200)	(76,700)
Recirculation of redeemable units tendered for redemption	–	76,700
Redeemable units, end of year	1,676,270	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 year ended December 31, 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 December 31, 2014, the market value of the Trust's debt portfolio was $3.9 million (19% 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 (7.8%, 15.9% and 7.5% of net assets attributable to holders of redeemable units for December 31, 2014, December 31, 2013 and January 1, 2013, respectively), defaulted bonds (10.7%, 4.5% and 7.0% of net assets attributable to holders of redeemable units for December 31, 2014, December 31, 2013 and January 1, 2013, respectively) and bonds rate single-B or lower (0.5%, 1.0% and 1.1% of net assets attributable to holders of redeemable units for December 31, 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:

December 31, 2014:

	Exposure			Impact on net assets attributable to holders of redeemable units		
Currency	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	$ (7,818)	$ 6,696,934	$ 6,689,116	$ (78)	$ 66,969	$ 66,891
% of net assets attributable to holders of redeemable units	–	32.4	32.4	–	0.3	0.3

9. Financial instruments risk management (continued):

December 31, 2013:

	Exposure			Impact on net assets attributable to holders of redeemable units		
Currency	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	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	2.2	23.4	25.6	0.1	0.2	0.3

January 1, 2013:

	Exposure			Impact on net assets attributable to holders of redeemable units		
Currency	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	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	1.7	20.2	21.9	–	0.2	0.2

As at December 31, 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 0.3% ($66,891) (December 31, 2013 - 0.3% ($55,972); January 1, 2013 - 0.2% ($40,130)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

9. Financial instruments risk management (continued):

(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 December 31, 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:

	December 31, 2014	December 31, 2013	January 1, 2013
Market* by maturity date:			
1 year or less	–	–	–
1 - 3 years	377,380	2,722,771	–
3 - 5 years	1,340,123	953,985	1,373,940
More than 5 years	–	–	205,125
Sensitivity to 25bps yield change increase or decrease net assets	9,612	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.

9. Financial instruments risk management (continued):

(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 December 31, 2014, 51.0% (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 5.1% $1,050,792 (December 31, 2013 - 5.6% $1,235,013; January 1, 2013 - 5.7% $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).

10. Fair value measurements (continued):

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:

December 31, 2014	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	$ 1,828,845	$ 2,088,771	$ –	$ 3,917,616
Equities	8,676,753	–	3,622,844	12,299,597
Warrants and options	2,325	–	–	2,325
	$ 10,507,923	$ 2,088,771	$ 3,622,844	$ 16,219,538

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

The Trust did not have any transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy in 2014 or 2013.

10. Fair value measurements (continued):

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

	Beginning of year, January 1, 2014	Realized fair value gain	Unrealized fair value gain	Sales or purchases	End of year, December 31, 2014
Specialty Foods Group - warrant	$ 2,511,533	$ –	$ –	$ (2,511,533)	$ –
Specialty Foods Group - equity	–	–	1,111,311	2,511,533	3,622,844
	$ 2,511,533	$ –	$ 1,111,311	$ –	$ 3,622,844

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

The table below sets out information about significant unobservable inputs used at December 31, 2014 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value at December 31, 2014	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes insignificant unobservable inputs
Unlisted private equity investments	$ 3,622,844	Present value of expected future distributions received	EBITDA multiple	5.0x EBITDA. No alternative assumption to disclose.	The estimated fair value would increase (decrease) by $144,181 or 4.0% for each 0.5x increase (decrease) in the EBITDA multiple.
			Discount rate	3% to 10% discount rate (7% weighted average).	The estimated fair value would increase (decrease) by $19,778 or 0.5% for each 100bps increase (decrease) in the discount rate.

10. Fair value measurements (continued):

Description	Fair value at December 31, 2013	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes insignificant unobservable inputs
Unlisted private equity investments	$ 2,511,533	Present value of expected future distributions received	EBITDA multiple	4.0x EBITDA. No alternative assumption to disclose.	The estimated fair value would increase (decrease) by $161,190 or 6.4% for each 0.5x increase (decrease) in the EBITDA multiple.
			Discount rate	25% discount rate No alternative assumption to disclose.	The estimated fair value would increase (decrease) by $20,387 or 0.8% for each 100bps increase (decrease) in the discount rate.

Description	Fair value at January 1, 2013	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes insignificant unobservable inputs
Unlisted private equity investments	$ 771,415	Present value of expected future distributions received	EBITDA multiple	3.0x EBITDA. No alternative assumption to disclose.	The estimated fair value would increase (decrease) by $131,461 or 1.7% for each 0.5x increase (decrease) in the EBITDA multiple.
			Discount rate	25% discount rate No alternative assumption to disclose.	The estimated fair value would increase (decrease) by $9,492 or 1.23% for each 100bps increase (decrease) in the discount rate.

The Manager is responsible for performing the fair value measurements included in the financial statements of the Trust, including Level 3 measurements. The Manager obtains pricing for Level 3 financial instruments from a third party pricing vendor, which is reviewed and approved by the Manager.

Financial instruments not measured at fair value:

(a) The cash and cash equivalents, interest and dividends receivable, accounts payable and accrued liabilities, management and administration fees payable and incentive fees payable are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.

10. Fair value measurements (continued):

Cash and cash 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.

(b) The Trust's redeemable units are measured at the redemption amount and are considered a residual interest in the assets of the Trust after deducting all of its liabilities.

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 (loss) from financial assets at fair value through profit or loss:

	2014	2013
Net realized gain on financial assets:		
Financial assets held for trading	$ 139,820	$ –
Financial assets designated at fair value through profit and loss	634,174	1,632,007
	773,994	1,632,007
Net change in unrealized gain (loss) on financial assets:		
Financial assets held for trading	(8,875)	1,760,918
Financial assets designated at fair value through profit and loss	(1,468,153)	1,246,023
	(1,477,028)	3,006,941
	$ (703,034)	$ 4,638,948

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 (loss) 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 year ended December 31, 2014 and 2013 is calculated as follows:

	2014	2013
Increase (decrease) in net assets attributable to holders of redeemable units	$ (402,560)	$ 3,963,093
Weighted average of redeemable units outstanding during the year	1,684,094	1,700,470
Increase (decrease) in net assets attributable to holders of redeemable units per unit	$ (0.24)	$ 2.33

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 statements of changes in net assets attributable to holders of redeemable units and the Trust does not have externally imposed capital requirements.

14. Transition to IFRS:

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

(a) 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 Trust 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 Trust did not apply any other IFRS 1 exemptions or exceptions.

14. Transition to IFRS (continued):

(b) Statement of cash flows:

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

(c) 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 redeemable securities entitle unitholders the right to redeem their interest in the Trust for cash equal to their proportionate share of the net asset value of the Trust, amongst other contractual rights. These redeemable securities involve multiple contractual obligations on the part of the Trust and, therefore, meet the criteria for classification as financial liabilities on transition to IFRS. The Trust's obligation for net assets attributable to unitholders is measured at FVTPL, with fair value being the redemption amount.

(d) 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, 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.

As the fair values of all of the investments of the Trust under GAAP at December 31, 2013 and January 1, 2013 fell within the bid and ask prices, there were no revaluation differences on these dates.

14. Transition to IFRS (continued):

(e) 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	January 1, 2013
Equity as reported under Canadian GAAP	$ 21,899,457	$ 18,344,477
Revaluation of investments at FVTPL	–	–
Net assets attributable to holders of redeemable units	$ 21,899,457	$ 18,344,477

Comprehensive income	December 31, 2013
Comprehensive income as reported under Canadian GAAP	$ 3,963,093
Revaluation of investments at FVTPL	–
Increase in net assets attributable to holders of redeemable units	$ 3,963,093