

Financial Statements of

# **RAVENSOURCE FUND**

Six months ended June 30, 2018

# RAVENSOURCE FUND

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Six months ended June 30, 2018

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## 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 22, 2018**

Date

## NOTICE TO UNITHOLDERS

**The Auditors of the Partnership 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)

As at	June 30, 2018	December 31, 2017
<b>Assets</b>		
Cash and equivalents	\$ 3,885,997	\$ 1,796,026
Financial assets at fair value through profit or loss (cost - \$20,276,064; 2017 - \$21,114,258) (note 10)	23,249,908	23,405,143
Interest and dividends receivable	145,966	84,505
	<u>27,281,871</u>	<u>25,285,674</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	65,802	82,786
Management and administrative fees payable (note 4(b) and (c))	42,134	38,322
Incentive fees payable (note 4(d))	399,380	116,997
	<u>507,316</u>	<u>238,105</u>
Net assets attributable to holders of redeemable units	\$ 26,774,555	\$ 25,047,569
Number of redeemable units outstanding (note 6)	1,672,870	1,672,870
Net assets attributable to holders of redeemable units per unit (note 5)	\$ 16.01	\$ 14.97

See accompanying notes to financial statements.

Approved on behalf of the Trust:



Stornoway Portfolio Management Inc.  
as Investment Manager

# RAVENSOURCE FUND

Statements of Comprehensive Income (Unaudited)

For the six month period ended June 30	2018	2017
Income:		
Dividends and income trust distributions	\$ 109,450	\$ 68,726
Interest income for distribution purposes	146,186	13,370
	255,636	82,096
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	1,692,348	4,123,012
Net change in unrealized gain (loss) on financial assets	682,961	(3,897,614)
	2,375,309	225,398
	2,630,945	307,494
Expenses:		
Management fees (note 4(b))	93,076	90,128
Administrative fees (note 4(c))	50,118	48,531
Impact of management and administrative fee reductions (note 4(a))	(61,508)	(66,124)
Incentive fee (note 4(d))	399,380	–
Interest expense	39,702	27,696
Legal fees	37,921	43,370
Transaction costs	17,812	4,943
Accounting fees	15,221	13,041
Audit fees	13,509	12,032
Independent review committee fees	12,545	1,978
Listing fees	12,125	8,430
Other expenses	9,191	15,581
Trust administration and transfer agency fees	7,171	9,918
Investor relations fees (note 4(e))	6,765	6,706
	653,028	216,230
Increase in net assets attributable to holders of redeemable units	\$ 1,977,917	\$ 91,264
Weighted average number of units outstanding during the period	1,672,870	1,672,870
Increase in net assets attributable to holders of redeemable units per weighted average unit outstanding during the period	\$ 1.18	\$ 0.05

See accompanying notes to financial statements.

# RAVENSOURCE FUND

Statements of Changes In Net Assets Attributable to Holders of Redeemable Units (Unaudited)

For the six month period ended June 30	2018	2017
Net assets attributable to holders of redeemable units, beginning of period	\$ 25,047,569	\$ 24,066,037
Increase in net assets attributable to holders of redeemable units:	1,977,917	91,264
Capital transactions:		
Distributions to holders of redeemable units (note 5(d))	(250,931)	(368,032)
Net assets attributable to holders of redeemable units, end of period	\$ 26,774,555	\$ 23,789,269

See accompanying notes to financial statements.

# RAVENSOURCE FUND

## Statements of Cash Flows (Unaudited)

For the six month period ended June 30	2018	2017
Cash and equivalents, beginning of period	\$ 1,796,026	\$ 3,209,544
Increase (decrease) in cash and equivalents during the period:		
Cash flow from operating activities:		
Increase in net assets attributable to holders of redeemable units, for the period	1,977,917	91,264
Adjustments for non-cash items:		
Net realized (gain) loss on financial assets, including foreign exchange adjustments	(1,692,348)	(4,123,012)
Net change in unrealized (gain) loss on financial assets	(682,961)	3,897,614
Change in non-cash balances:		
(Increase) decrease in interest and dividends receivable	(61,461)	16,000
Increase (decrease) in accounts payable and accrued liabilities	(16,984)	41,446
Increase (decrease) in incentive, management and administrative fees payable	286,195	22,844
Proceeds from sale of investments	3,449,591	4,819,050
Purchase of investments	(745,405)	(2,867,497)
Net cash flow from operating activities	2,514,544	1,897,709
Cash flow from financing activities:		
Distributions paid to holders of redeemable units, net of reinvested distributions	(250,931)	(368,032)
Net cash flow used in financing activities	(250,931)	(368,032)
Foreign exchange gain (loss) on cash	(173,642)	62,407
Increase in cash and equivalents during the period	2,089,971	1,592,084
Cash and equivalents, end of period	\$ 3,885,997	\$ 4,801,628
Supplemental cash flow information:		
Interest paid	\$ 39,702	\$ 27,696
Interest received	93,591	20,693
Dividends received	97,804	77,404

See accompanying notes to financial statements.

# RAVENSOURCE FUND

Schedule of Investments (Unaudited)

As at June 30, 2018

Number of shares/units	Investments, owned	Average cost	Fair value	Fair value as % of net asset value
Canadian equities:				
47,700	CanWel Building Materials Group Ltd.	\$ 341,059	\$ 325,790	1.22
2,863	Cardinal Energy Ltd.	3,425	15,804	0.06
228,100	Chinook Energy Inc.	102,645	45,620	0.17
8,028	Connacher Oil and Gas Ltd.	12,399	–	–
1,000	Crystallex International Corp.	90	–	–
574,896	Flow Capital Corp.	68,988	71,862	0.27
315,843	Glacier Media Inc.	483,043	224,249	0.84
21,100	GVIC Communications Corp. Class B	359,830	3,271	0.01
22,500	GVIC Communications Corp. Class C	819,242	2,925	0.01
110,365	InPlay Oil Corp.	211,901	198,657	0.74
35,288	Manitok Energy Inc.	4,241	–	–
655,000	Northern Frontier Corp.	1,187,071	–	–
58,400	NuVista Energy Ltd.	312,183	527,936	1.97
248,033	Plaza Retail REIT	326,218	1,081,424	4.04
2,378	Point Loma Resources Ltd.	261	547	0.00
174,200	Supremex Inc.	396,824	573,118	2.14
83,900	Ten Peaks Coffee Co Inc.	237,487	510,112	1.91
		4,866,907	3,581,315	13.38
U.S. equities:				
296,667	Firm Capital American Realty Partners Corp.	2,546,063	2,534,990	9.47
350,000	Genworth Financial Inc.	1,772,831	2,065,894	7.72
271,026	GXI Acquisition Corp. Class A	–	208,786	0.78
617,058	GXI Acquisition Corp. Class B	17,091	475,354	1.78
515,766	Old PSG Wind-Down Ltd.	700,858	275,753	1.03
13,157	Quad/Graphics Inc.	595,635	360,107	1.34
1,323,256	SeaCo Ltd.	–	174	0.00
2,026	Spanish Broadcasting System Inc. Preferred Shares 10.75%	1,923,771	1,877,683	7.01
15,062	Specialty Foods Group LLC.	–	19,800	0.07
28,333	Specialty Foods Group LLC. Class 1 Preferred Shares	–	1,229,120	4.59
90,663	Specialty Foods Group LLC. Class 2 Preferred Shares	–	3,962,937	14.80
		7,556,249	13,010,598	48.59



# RAVENSOURCE FUND

Schedule of Investments (Unaudited) (continued)

As at June 30, 2018

Number of shares/units	Investments, owned	Average cost	Fair value	Fair value as % of net asset value
Fixed income:				
10,128	Connacher Oil & Gas Ltd. 12.00% due Aug 31, 2018 *	223,500	—	—
3,650,000	Crystallex International Corp. 9.375% due Dec 30, 2011 *	1,889,122	3,646,700	13.62
1,750,000	Dealnet Capital Corp. 6% due Dec 22, 2019	1,454,600	1,559,775	5.83
1,000,000	Delphi Holdings Corp. 6.55% due Jun 15, 2006 *	670,590	—	—
1,043,000	Exall Energy Corp. 7.75% due Mar 31, 2017 *	352,036	—	—
2,000	Flow Capital Corp. 7% due Jun 30, 2021	1,840	1,528	0.01
1,007,000	Flow Capital Corp. 8% due Dec 31, 2019	794,628	805,600	3.01
6,000	Gasfrac Energy Services Inc. 7% due Feb 28, 2017 *	4,207	—	—
641,260	GuestLogix Inc. 7% due Dec 31, 2019 *	18,045	25,009	0.09
4,284,000	Ivanhoe Energy Inc. 5.75% due Jun 30, 2016 *	1,776,864	—	—
450,000	Spanish Broadcasting System Inc. 12.5% due Apr 15, 2017 *	569,060	604,880	2.26
		7,754,492	6,643,492	24.81
Warrants, Options and Forward Contracts:				
7,000,000	Dealnet Capital Corp. \$0.12 22DEC2019	120,400	14,000	0.05
8,375	Dundee Corp. \$6.00 30JUN2019	8,933	503	0.00
		129,333	14,503	0.05
Net investments owned		20,306,981	23,249,908	86.84
Brokerage commissions		(30,917)		
Total portfolio of Investments		<u>\$ 20,276,064</u>	23,249,908	86.84
Other net assets			3,524,647	13.16
Net assets attributable to holders of redeemable units			<u>\$ 26,774,555</u>	100.00

\* Defaulted

See accompanying notes to financial statements.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

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## 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, July 1, 2008 and July 3, 2015. 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 161,544 (2017 - 158,044) units, representing 9.66% (2017 - 9.45%) of the outstanding units as at June 30, 2018.

The capital of the Trust is represented by the net assets attributable to holders of redeemable units of the Trust, and comprises investments, cash and cash equivalents, and interest and dividends receivable, 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 continued service and investment decisions of the Investment Manager and will be influenced by a number of risk factors including the performance of the Trust's investee companies, availability of suitable investments, general economic and market conditions, purchases of securities and other obligations of financially distressed companies, changes in foreign exchange and interest rates, and leverage from borrowed funds.

## 2. Basis of presentation:

The policies applied in these financial statements are based on International Financial Reporting Standards ("IFRS") in effect as at August 22, 2018, which is the date on which the financial statements were authorized for issue by the Investment Manager.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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### 3. Significant accounting policies:

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

#### (a) Financial instruments

##### (i) Recognition, initial measurement and classification

For fiscal years beginning January 1, 2018, IFRS 9, Financial Instruments (“IFRS 9”) has replaced International Accounting Standard 39, Financial Instruments – Recognition and Measurement (“IAS 39”). IFRS 9 introduces new classification and measurement requirements for financial instruments, including impairment on financial assets and hedge accounting.

This new standard requires assets to be classified based on the Trust’s business model for managing the financial assets and contractual cash flow characteristics of the financial assets. The standard includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, and fair value through profit and loss (“FVTPL”). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities

There were no changes to the measurement basis of the Trust’s financial instruments as a result of adopting IFRS 9, and consequently, there was no impact to net assets.

Financial assets and financial liabilities at FVTPL are initially recognized on the trade date, at fair value, with transaction costs recognized in the statements of comprehensive income. Other financial assets and financial liabilities are recognized on the date on which they are originated at fair value.

The Trust classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss: debt securities, equity investments and derivative financial instruments
- Financial assets at amortized cost: All other financial assets are classified as loans and receivables
- Financial liabilities at fair value through profit or loss: derivative financial instruments and securities sold short, if any

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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- Financial liabilities at amortized cost: all other financial liabilities are classified as other financial liabilities

The Trust does not classify any derivatives as hedges in a hedging relationship.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively and management has taken an exemption not to restate comparative information for prior periods. Accordingly, the information present for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

(ii) Fair value measurement

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.

Purchases and sales of financial assets are recognized at their trade dates.

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.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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### 3. Significant accounting policies (continued):

The Trust may enter into a forward contract to hedge itself against foreign currency exchange rate risk for its foreign currency-denominated assets and liabilities in case of adverse foreign currency fluctuations against the U.S. dollar and as part of its investment strategy.

Forward contract currency transactions are contracts or agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward currency contracts are the inability of counterparties to meet the terms of their respective contracts and movements in fair value and exchange rates. The Trust considers the credit risk of the counterparty for forward contracts in evaluating potential credit risk and selecting counterparties to forward contracts.

#### (iii) 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.

The Trust and its custodian have agreed that in the event of a default, the custodian reserves the right to sell any and all property the Trust holds with the custodian or any of its affiliates, to offset any indebtedness the Trust may have.

#### (iv) Recognition/derecognition:

The Trust recognizes financial assets or financial liabilities 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 expired.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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### 3. Significant accounting policies (continued):

#### (b) 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 financial assets and the change in unrealized gain (loss) on financial assets 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.

#### (c) 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.

#### (d) 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 the Canadian dollar. Resulting exchange differences are recognized in the statements of comprehensive income in net realized gain (loss) on financial assets and net change in unrealized gain (loss) on financial assets.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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### 3. Significant accounting policies (continued):

(e) 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.

(f) Use of estimates and judgment

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.

The assessment made by management on the date of initial application of IFRS 9 includes the determination of the business model within which a financial asset is held and the designation and revocation of previous designation of certain financial assets and financial liabilities as measured at FVTPL.

(g) Cash and cash equivalents:

Cash and cash equivalents represent cash positions, as well as any trades that are in transit as at June 30, 2018 and December 31, 2017.

(h) Net assets 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.

(i) Increase (decrease) in net assets attributable to holders of redeemable units per weighted average unit outstanding during the period:

Increase (decrease) in net assets attributable to holders of redeemable units per weighted average unit outstanding during the period is based on the increase (decrease) 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.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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## 4. Related party transactions:

### (a) Specialty Foods Group Inc. Services Agreement:

The Trust has an investment in the securities of Specialty Foods Group LLC ("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 Managers 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 six months ended June 30, 2018, the Investment Manager reduced management fees by \$35,381 (2017 - \$38,036) and reduced administrative fees by \$19,051 (2017 - \$20,481), which fees and costs would have been subject to harmonized sales tax ("HST"). Therefore, the total impact of fee reductions amounted to \$61,508, inclusive of HST (2017 - \$66,124). 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.

### (b) Management fees:

The management fees payable to the Investment Manager are 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:

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Average weekly net assets attributable to holders of redeemable units	Management fee
Up to and including \$250,000,000	0.65% plus HST
Between \$250,000,000 and \$500,000,000	0.60% plus HST
\$500,000,000 and more	0.55% plus HST

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# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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#### 4. Related party transactions (continued):

The net management fees for the period ended June 30, 2018 amounted to \$53,096 (2017 - \$47,148). The Investment Manager reduced the net management fees by \$35,381 (2017 - \$38,036), as described in further detail in (a). In the absence of the net management fee reduction, total net management fees would have amounted to approximately \$93,076, inclusive of HST (2017 - \$90,128). The net management fees payable as at June 30, 2018 amounted to \$27,387, including HST (December 31, 2017 - \$24,909).

(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:

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Average weekly net assets attributable to holders of redeemable units	Administrative fee
Up to and including \$250,000,000	0.35% plus HST
Between \$250,000,000 and \$500,000,000	0.30% plus HST
\$500,000,000 and more	0.25% plus HST

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The net administrative fees for the period ended June 30, 2018 amounted to \$28,590 (2017 - \$25,387). The Investment Manager reduced the net administrative fees by \$19,051 (2017 - \$20,481), as described in further detail in (a). In the absence of the net administrative fees reduction, total net administrative fees would have amounted to approximately \$50,118, inclusive of HST (2017 - \$48,531). The net administrative fees payable as at June 30, 2018 amounted to \$14,747, including HST (December 31, 2017 - \$13,413).

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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## 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 assets 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 period ended June 30, 2018 amounted to \$399,380 (2017 - \$nil), inclusive of HST. The incentive fee payable as at June 30, 2018 amounted to \$399,380, including HST (December 31, 2017 - \$116,997).

### (e) Investor relations fees:

The Investment Manager is paid monthly investor relations fees of \$1,000 plus applicable sales tax for unitholder reporting and other services provided under a service agreement. The aggregate investor relations fees for the period ended June 30, 2018 amounted to \$6,765, inclusive of HST (2017 - \$6,706).

## 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.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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## 5. Unitholders' entitlements (continued):

### (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 ("Annual Redemption Date"), 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 as net assets 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 distributions of \$0.15 per unit on June 29, 2018 for total distributions of \$250,931 (2017 - \$368,032).

As at December 31, 2017, the Trust had cumulative net capital losses of \$13,896,501 (2016 - \$16,780,089) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

As at December 31, 2017, the Trust had non-capital losses of \$320,011 (2016 - \$45,250) for income tax purposes that may be carried forward and applied to reduce future years' taxable income.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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## 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 assets attributable to holders of redeemable units per unit calculated on the redemption date.

	June 30, 2018	June 30, 2017
Redeemable units, beginning of period	1,672,870	1,672,870
Redeemable units, end of period	1,672,870	1,672,870

## 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, 2018 (2017 - nil).

## 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.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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## 9. Financial instruments risk management (continued):

With the ability of taking both long and short positions, the Trust may incur both interest expense and borrowing fees. While the use of borrowed funds can substantially improve the return on invested capital, its use may also increase the adverse impact to which the investment portfolio of the Trust may be subjected by increasing the Trust's exposure to capital risk and higher current expenses. The Trust did not use any borrowed funds as at June 30, 2018 and December 31, 2017.

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, 2018, the market value of the Trust's debt portfolio was \$6,643,493 (24.8% of net assets attributable to holders of redeemable units) (December 31, 2017 - \$5,092,517 (20.3% of net assets attributable to holders of redeemable units)), and comprised of interest-paying bonds (8.8% and 8.3% of net assets attributable to holders of redeemable units for June 30, 2018 and December 31, 2017, respectively) and defaulted bonds (16.0% and 12.0% of net assets attributable to holders of redeemable units for June 30, 2018 and December 31, 2017, 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.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

## 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. As per the Declaration of Trust, the Trust has a 35-day notice to make a redemption payment, during which time, the Investment Manager can raise sufficient cash to satisfy the payment. In addition, the Trust has the right to resell units tendered for redemption and generally 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, 2018:

Currency	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units		
	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	\$ (3,737,110)	\$ 17,262,179	\$ 13,525,069	\$ (37,371)	\$ 172,622	\$ 135,251
% of net assets attributable to holders of redeemable units	(14.0)	64.5	50.5	(0.1)	0.6	0.5

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

## 9. Financial instruments risk management (continued):

December 31, 2017:

Currency	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units		
	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	\$ (3,035,736)	\$ 13,954,833	\$ 10,919,097	\$ (30,357)	\$ 139,548	\$ 109,191
% of net assets attributable to holders of redeemable units	(12.1)	55.7	43.6	(0.1)	0.6	0.5

As at June 30, 2018, 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 0.5% (\$135,251) (December 31, 2017 - 0.5% (\$109,191)). 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.

The Trust has exposure to interest-paying bonds (8.8% of net assets (December 31, 2017 – 8.3%)) and defaulted bonds (16.0% of net assets (December 31, 2017 – 12.0%)) 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. Changes in interest rates do not directly affect the market value of defaulted bonds as the underlying issuers have stopped making interest payments and thus do not offer a yield component to the holder. However, the Trust's interest-paying bonds do have a degree of interest rate risk, which is summarized in the table below.

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

## 9. Financial instruments risk management (continued):

As at June 30 2018, the Trust's exposure to interest rate sensitive debt instruments by maturity and the impact on its net assets 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:

	Jun 30, 2018	Dec 31, 2017
Market by maturity date*: 1 – 3 years	\$ 2,366,903	\$ 2,091,320
Sensitivity to 25 bps yield change increase or decrease net assets	\$ 7,780	\$ 9,006

\*Excludes cash, defaulted bonds and bonds to be converted to equity.

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, 2018, 34.9% (December 31, 2017 – 47.7%) 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 3.5% or \$935,011 (December 31, 2017 - 4.8% or \$1,195,503). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.



# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

## 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 tables present the Trust's financial instruments that have been measured at fair value, on a recurring basis:

June 30, 2018	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 807,128	\$ 4,251,581	\$ 1,584,784	\$ 6,643,493
Equities	8,542,479	1,877,683	6,171,750	16,591,912
Warrants	–	503	14,000	14,503
	\$ 9,349,607	\$ 6,129,767	\$ 7,770,534	\$ 23,249,908

December 31, 2017	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	\$ 636,720	\$ –	\$ 4,455,797	\$ 5,092,517
Equities	11,317,181	1,795,054	5,023,560	18,135,795
Warrants	–	176,831	–	176,831
	\$ 11,953,901	\$ 1,971,885	\$ 9,479,357	\$ 23,405,143

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

## 10. Fair value measurements (continued):

During the period ended June 30, 2018, there was one transfer from Level 3 to Level 2 in the amount of \$2,981,639 as a quoted price became available in a less active market for Crystallex International Corp. debentures. The Trust did not have any other transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy in the period ended June 30, 2018.

During the year ended December 31, 2017, there was one transfer from Level 1 to Level 3 in the amount of \$263,618 as Old PSG Wind-Down Ltd. common shares were delisted from the exchange. There was one transfer from Level 2 to Level 3 in the amount of \$3,430,599 as Crystallex International Corp. debentures were priced using the average of two bid quotes received for the security at December 31, 2017. There was also one transfer from level 2 to Level 1, as due to changes in market conditions for one bond investment, a quoted price in an active market became available. The Trust did not have any other transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy in the year ended December 31, 2017.

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

	Beginning of period, January 1, 2018	Transfer from Level 2	Transfer to Level 2	Unrealized fair value gain (loss)	Sales or purchases	End of period, June 30, 2018
Speciality Foods Group LLC	18,929	–	–	871	–	19,800
Speciality Foods Group LLC, Class 1 preferred shares	1,175,032	–	–	54,088	–	1,229,120
Speciality Foods Group LLC, Class 2 preferred shares	2,439,481	–	–	1,523,456	–	3,962,937
GXI Acquisition Corp. - equity	1,126,500	–	–	(442,360)	–	684,140
Old PSG Wind Down - equity	263,618	–	–	12,135	–	275,753
GuestLogix - debenture	19,558	–	–	5,451	–	25,009
Dealnet Capital Corp. - debenture	1,454,600	–	–	105,175	–	1,559,775
Crystallex International Corp.	2,981,639	–	(2,981,639)	–	–	–
Dealnet Capital Corp. - warrants	–	175,700	–	(161,700)	–	14,000
<b>Total</b>	<b>\$ 9,479,357</b>	<b>\$ 175,700</b>	<b>\$ (2,981,639)</b>	<b>\$ 1,097,116</b>	<b>\$ –</b>	<b>\$ 7,770,534</b>

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

## 10. Fair value measurements (continued):

	Beginning of period, January 1, 2017	Transfer from Level 1	Transfer from Level 2	Unrealized fair value gain (loss)	Sales or purchases	End of period, December 31, 2017
SFG - equity	\$ 5,406,026	\$ -	\$ -	\$ (2,848,464)	\$ (2,557,562)	\$ -
Speciality Foods Group LLC	-	-	-	18,929	-	18,929
Speciality Foods Group LLC, Class 1 preferred shares	-	-	-	1,175,032	-	1,175,032
Speciality Foods Group LLC, Class 2 preferred shares	-	-	-	2,439,481	-	2,439,481
GXI Acquisition Corp. - equity	1,203,543	-	-	(77,043)	-	1,126,500
Old PSG Wind Down - equity	-	263,618	-	-	-	263,618
GuestLogix - debenture	34,179	-	-	13,292	(27,913)	19,558
Dealnet Capital Corp. - debenture	-	-	-	-	1,454,600	1,454,600
Crystallex International Corp.	-	-	3,430,599	(448,960)	-	2,981,639
<b>Total</b>	<b>\$ 6,643,748</b>	<b>\$ 263,618</b>	<b>\$ 3,430,599</b>	<b>\$ 272,267</b>	<b>\$ (1,130,875)</b>	<b>\$ 9,479,357</b>

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

## 10. Fair value measurements (continued):

The tables below set out information about significant unobservable inputs used as at June 30, 2018 and December 31, 2017 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value, June 30, 2018	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	\$ 5,211,857	Present value of expected future distributions received	Discount rate	10% discount rate. No alternative assumption to disclose	The estimated fair value would increase (decrease) by \$52,118 (\$51,602) or 1.0% for each 100 bps decrease (increase) in the discount rate
Unlisted private equity investments	684,140	Present value of expected future cash flows	Internal rate of return	25% IRR. No alternative assumption to disclose	The estimated fair value would increase (decrease) by \$8,172 (\$7,005) or 1.2% (1.0%) for each 100 bps decrease (increase) in IRR
Unlisted private Equity investments	275,753	Not applicable	Transaction Price	Not applicable	Not applicable
Unlisted private bonds	1,559,775	Present value of expected future coupon and interest payments	Bond yield	21% bond yield. No alternative assumption to disclose	The estimated fair value would increase (decrease) by \$20,443 (\$20,079) or 1.3% for each 100 bps decrease (increase) in yield
Defaulted bonds	25,009	Not applicable	Monitor's estimate of final distribution	Not applicable	Not applicable
Unlisted private Warrants	14,000	Option model	Volatility assumption	50% volatility. No alternative assumption to disclose	The estimated fair value would increase (decrease) by \$7,000 or 50% for each 10% increase (decrease) in the volatility assumption
	<u>\$ 7,770,534</u>				

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

## 10. Fair value measurements (continued):

Description	Fair value, December 31, 2017	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	\$ 3,633,442	Present value of expected future distributions received	EBITDA multiple  Discount rate	7.00x EBITDA No alternative assumption to disclose  10%	Estimated fair value would increase (decrease) by \$268,878 or 7.4% for each 0.5x increase (decrease) in the EBITDA multiple  Estimated fair value would increase (decrease) by \$33,338 or 0.9% for each 100 bps decrease (increase) in the discount rate
Unlisted private equity investments	1,390,118	Not applicable	Transaction price	Not applicable	Not applicable
Unlisted private applicable bonds	1,454,600	Not applicable	Transaction price	Not applicable	Not
Defaulted Bonds	2,981,639	Average of broker quotes received	Broker quotes	\$45 - \$85 per \$100 face value	Estimated fair value would increase (decrease) by \$917,427 or 30.8%
Defaulted bonds	19,558	Not applicable	Monitor's estimate of final distribution	Not applicable	Not applicable
	<u>\$ 9,479,357</u>				

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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## 10. Fair value measurements (continued):

The Investment Manager is responsible for performing the fair value measurements included in the financial statements of the Trust, including Level 3 measurements. The Investment Manager obtains pricing for Level 3 financial instruments from a third-party pricing vendor, which is reviewed and approved by the Investment 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 administrative fees payable and incentive fee payable are short-term financial assets and financial liabilities which carrying amounts approximate fair values.

Cash and cash equivalents and interest and dividends receivable 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).

# RAVENSOURCE FUND

Notes to Financial Statements (Unaudited) (continued)

Six months ended June 30, 2018

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## **11. Net gain from financial assets at FVTPL:**

The realized gain (loss) from financial assets at FVTPL represents the difference between the carrying amount of the financial asset at the beginning of the reporting year, or the transaction price if it was purchased during the reporting year, and its sale or settlement price.

The net change in unrealized gain (loss) on financial assets represents the difference between the carrying amount of a financial asset at the beginning of the reporting year, or the transaction price if it was purchased during the reporting year, and its carrying amount at the end of the reporting year.

## **12. 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.

## **13. Comparative information:**

Certain 2017 information has been reclassified to conform with the financial statement presentation adopted in 2018.



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