Financial Statements of

RAVENSOURCE FUND

Years ended December 31, 2019 and 2018

RAVENSOURCE FUND
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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Ravensource Fund

Opinion

We have audited the financial statements of Ravensource Fund (the Entity), which comprise:

- the statements of financial position as at December 31, 2019 and December 31, 2018
- the statements of comprehensive income for the years then ended
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management Report of Fund Performance to be filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is James Loewen.

Toronto, Canada

February 28, 2020

RAVENSOURCE FUND

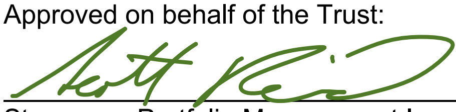
Statements of Financial Position

December 31, 2019 and 2018

		2019		2018
Assets				
Cash and cash equivalents	$	5,992,900	$	8,854,534
Financial assets at fair value through profit or loss (cost - $19,683,646; 2018 - $17,912,250) (note 10)		23,658,174		21,099,245
Foreign exchange contract (note 10)		157,781		–
Interest and dividends receivable		58,299		51,812
		29,867,154		30,005,591
Liabilities				
Accounts payable and accrued liabilities		98,961		97,585
Foreign exchange contract (note 10)		–		161,685
Management and administrative fees payable (note 4(b) and (c))		55,426		53,583
Incentive fee payable (note 4(d))		–		884,580
		154,387		1,197,433
Net assets attributable to holders of redeemable units	$	29,712,767	$	28,808,158
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)	$	17.76	$	17.22

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

Years ended December 31, 2019 and 2018

	2019	2018
Income:		
Dividends and income trust distributions	$ 488,484	$ 288,140
Interest income for distribution purposes	290,686	276,043
	779,170	564,183
Net change in fair value on financial assets at fair value through profit or loss and foreign exchange contracts:		
Net unrealized gain on financial assets	797,238	896,112
Net unrealized gain (loss) on foreign exchange contracts	319,466	(161,685)
Net realized gain (loss) on financial assets, including foreign exchange adjustments	(154,419)	4,422,508
Net realized gain on foreign exchange contracts	314,438	–
Net change in fair value on financial assets and foreign exchange contracts	1,276,723	5,156,935
	2,055,893	5,721,118
Expenses (income):		
Management fees (note 4(b))	217,094	194,286
Administrative fees (note 4(c))	116,897	104,616
Impact of management and administrative fee reductions (note 4(a))	–	(94,071)
Incentive fee (note 4(d))	–	884,580
Legal fees	112,110	100,417
Independent review committee fees	33,000	32,260
Accounting fees	32,002	30,510
Audit fees	31,137	26,577
Transaction costs	30,665	29,380
Listing fees	28,641	19,870
Trust administration and transfer agency fees	21,883	15,309
Investor relations fees (note 4(e))	13,520	13,600
Other	7,799	10,582
Interest	4,675	90,752
	649,423	1,458,668
Increase in net assets attributable to holders of redeemable units	$ 1,406,470	$ 4,262,450
Average number of units outstanding	1,672,870	1,672,870
Increase in net assets attributable to holders of redeemable units per weighted average unit outstanding	$ 0.84	$ 2.55

See accompanying notes to financial statements.

RAVENSOURCE FUND

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

Years ended December 31, 2019 and 2018

	2019	2018
Net assets attributable to holders of redeemable units, beginning of year	$ 28,808,158	$ 25,047,569
Increase in net assets attributable to holders of redeemable units	1,406,470	4,262,450
Capital transactions:		
Units tendered for redemption (note 5(c))	(1,081,068)	(932,867)
Recirculation of units tendered for redemption (note 5(c))	1,081,068	932,867
Distributions paid to holders of redeemable units (note 5(d))	(501,861)	(501,861)
	(501,861)	(501,861)
Net assets attributable to holders of redeemable units, end of year	$ 29,712,767	$ 28,808,158

See accompanying notes to financial statements.

RAVENSOURCE FUND

Statements of Cash Flows

Years ended December 31, 2019 and 2019

	2019	2018
Cash and cash equivalents, beginning of year	$ 8,854,534	$ 1,796,026
Increase (decrease) in cash and cash equivalents during the year:		
Cash flows from (used in) operating activities:		
Increase in net assets attributable to holders of redeemable units	1,406,470	4,262,450
Adjustments for non-cash income items:		
Net unrealized gain on financial assets	(797,238)	(896,112)
Net unrealized loss (gain) on foreign exchange contracts	(319,466)	161,685
Net realized loss (gain) on financial assets, including foreign exchange translations on cash	154,419	(4,422,508)
Change in non-cash working capital balances:		
Decrease (increase) in interest and dividends receivable	(6,487)	32,693
Increase in accounts payable and accrued liabilities	1,376	14,799
Increase (decrease) in incentive fees payable	(884,580)	767,583
Increase in management and administrative fees payable	1,843	15,261
Proceeds from sale of investments	4,963,007	11,470,886
Purchase of investments	(6,849,824)	(3,699,638)
Net cash flows from (used in) operating activities	(2,330,480)	7,707,099
Cash flows from (used in) financing activities:		
Distributions paid to holders of redeemable units	(501,861)	(501,861)
Units tendered for redemption	(1,081,068)	(932,867)
Recirculation of units tendered for redemption	1,081,068	932,867
Net cash flows used in financing activities	(501,861)	(501,861)
Foreign exchange loss on cash	(29,293)	(146,730)
Increase (decrease) in cash and cash equivalents	(2,861,634)	7,058,508
Cash and cash equivalents, end of year	$ 5,992,900	$ 8,854,534
Supplemental cash flow information:		
Interest paid	$ 4,675	$ 90,752
Interest received	270,756	335,695
Dividends received	498,362	255,731

See accompanying notes to financial statements.

RAVENSOURCE FUND

Schedule of Investments

December 31, 2019

Shares/units/ par value	Investments owned	Average cost	Fair value	Fair value as % of net asset value
	Canadian equities:			
1,000	Crystallex International Corp.	$ 90	$ –	–
52,833	Delphi Energy Corp.	87,174	33,813	0.11
105,667	Delphi Energy Corp. Equity Subscription Receipts	174,351	174,351	0.59
184,818	Dundee Corp. Series 3 Preferred Shares	2,218,546	2,787,056	9.38
27	Dundee Corp. Series 2 Preferred Shares	394	399	–
168,817	Flow Capital Corp.	20,258	24,478	0.08
20,600	GVIC Communications Corp. Class B	16,686	2,678	0.01
194,000	Hudson's Bay Co.	1,848,219	1,916,720	6.45
		4,365,718	4,939,495	16.62
	U.S. equities:			
296,667	Firm Capital American Realty Partners Corp.	2,546,063	2,565,480	8.63
484,500	Genworth Financial Inc.	2,574,545	2,768,036	9.32
300,900	GXI Acquisition Corp. Class A	399,287	302,873	1.02
745,286	GXI Acquisition Corp. Class B	988,915	750,174	2.52
515,766	Old PSG Wind-Down Ltd.	700,858	348,242	1.17
263,157	Quad/Graphics Inc.	1,997,535	1,595,721	5.37
1,323,256	SeaCo Ltd.	–	–	–
2,026	Spanish Broadcasting System Inc. Preferred Shares 10.75%	1,923,771	2,104,528	7.08
90,663	Specialty Foods Group LLC. Class 2 Preferred Shares	–	90,764	0.31
		11,130,974	10,525,818	35.42
	Fixed income:			
244,541	Colabor Group Inc. 6% due Oct 13, 2021	194,625	207,860	0.70
3,959,000	Crystallex International Corp. 9.375% due Dec 30, 2011*	2,453,240	6,425,704	21.63
757,633	Delphi Energy Corp. 10% due Apr 15, 2023	519,656	469,732	1.58
697,367	Delphi Energy Corp. Note Subscription Receipts	523,025	523,025	1.76
432,000	Spanish Broadcasting System Inc. 12.5% due Apr 15, 2017*	546,297	566,540	1.91
		4,236,843	8,192,861	27.58
Net investments owned		19,733,535	23,658,174	79.62

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Schedule of Investments (continued)

December 31, 2019

Shares/units/ par value	Investments owned	Average cost	Fair value	Fair value as % of net asset value
Foreign exchange contract:				
	Sell $11,250,000 USD, buy $14,762,531 CAD @1.312225, March 21, 2020	–	157,781	0.53
Brokerage commissions		(49,889)		
Total portfolio of investments		$ 19,683,646	23,815,955	80.15
Other net assets			5,896,812	19.85
Net assets			$ 29,712,767	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, July 1, 2008, July 3, 2015 and August 7, 2019. 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 (the "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 163,487 (2018 - 163,927) units, representing 9.8% (2018 - 9.8%) of the outstanding units as at December 31, 2019.

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. To achieve its objectives the Trust invests across three core strategies: Distressed Securities; Alternative Credit; and Special Situations Equities. 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:

(a) Basis of presentation:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). There were authorized for issue by the Manager of February 28, 2020.

2. Basis of presentation (continued):

(b) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Trust's functional currency.

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:

IFRS 9, Financial Instruments ("IFRS 9") 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"). IFRS 9 largely retains the existing requirements in International Accounting Standard 39, Financial Instruments - Recognition and Measurement for the classification of financial liabilities.

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.

Under IFRS 9, the Trust classifies financial assets and financial liabilities into the following categories:

- Financial assets at FVTPL: debt securities, equity investments and derivative financial instruments;
- Financial assets at amortized cost: all other financial assets are classified as at amortized cost;

3. Significant accounting policies (continued):

- Financial liabilities at FVTPL: derivative financial instruments and securities sold short, if any; and
- Financial liabilities at amortized cost: all other financial liabilities are classified as at amortized cost.

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

(ii) Fair value measurement:

Securities listed upon a recognized public stock exchange are valued at the most recent price which the security transacted as of the valuation dates. In the event a given security is not transacted on a valuation date, the Manager values the security using its closing bid price. 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.

The Trust recognizes financial instruments at fair value. 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.

3. Significant accounting policies (continued):

The Trust may enter into foreign exchange contracts 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.

Forward currency transactions are classified as foreign exchange contracts in the Trust's financial statements and represent 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 transactions 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 currency transactions in evaluating potential credit risk and selecting counterparties to forward currency transactions.

(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 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.

3. Significant accounting policies (continued):

(b) Income recognition:

Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

Interest income 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.

Net realized gain (loss) on the sale of financial assets and net unrealized gain 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 unrealized gain on financial assets.

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:

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. The Trust may hold financial instruments that are not quoted in active markets, including derivatives. The determination of the fair value of these instruments is the area with the most significant accounting judgements and estimates the Trust has made in preparing the financial statements. See note 10 for more information on fair value measurements. 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 December 31, 2019 and 2018.

(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.

3. Significant accounting policies (continued):

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

Increase in net assets attributable to holders of redeemable units per weighted average unit outstanding during the year 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.

4. Related party transactions:

(a) Specialty Foods Group LLC. Services Agreement:

The Trust previously held an investment in the securities of Specialty Foods Group LLC ("SFG"). Another fund managed by the Investment Manager also held an investment in SFG securities. A senior executive of the Investment Manager was also a member of the Board of Managers of SFG. During 2012, the Investment Manager entered into a services agreement with SFG ("SFG Services Agreement"), whereby the Investment Manager would provide strategic advice and analysis to SFG and in return earn a fee for these services. As per its internal policy, the Investment Manager reduced the management fees and administrative fees that it charged 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.

On October 1, 2018, SFG was sold to Indiana Packers Corporation. On the completion of the sale of SFG to Indiana Packers Corporation, the SFG Services Agreement was terminated. Accordingly, the Investment Manager received the last payment under the SFG Services Agreement in Q3 2018.

As the SFG Services Agreement is terminated, during the year ended December 31, 2019, the Investment Manager made no reductions to management fees (2018 - $54,111) or administrative fees (2018 - $29,137) and does not expect any management and administrative fee reductions going forward. Any reductions would have been subject to harmonized sales tax ("HST"). Therefore, the total impact of the fee reductions during the year amounted to nil, inclusive of HST (2018 - $94,071), as noted in the financial statements.

4. Related party transactions (continued):

(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:

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

The net management fees for the year ended December 31, 2019 amounted to $217,094 (2018 - $133,141). During the year ended December 31, 2019, the Investment Manager reduced the net management fees by nil (2018 - $54,111), as described in further detail in (a). In the absence of the management fee reduction, total net management fees would have amounted to approximately $217,094 (2018 - $194,286), inclusive of HST. The net management fees payable as at December 31, 2019 amounted to $36,027, including HST (2018 - $34,829).

(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 $250,000,000	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

4. Related party transactions (continued):

The net administrative fees for the year ended December 31, 2019 amounted to $116,897 (2018 - $71,691). During the year ended December 31, 2019, the Investment Manager reduced the net administrative fees by nil (2018 - $29,137), 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 $116,897 (2018 - $104,616), inclusive of HST. The net administrative fees payable as at December 31, 2019 amounted to $19,399, including HST (2018 - $18,754).

(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 assets 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 determined annually and paid after the annual audit of the Trust's financial statements is completed. Incentive fee expense for the year ended December 31, 2019 amounted to nil, inclusive of HST (2018 - $884,580). The incentive fee payable as at December 31, 2019 amounted to nil, including HST (2018 - $884,580).

(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 year ended December 31, 2019 amounted to $13,520, inclusive of HST (2018 - $13,600). The investor relations fee payable as at December 31, 2019 amounted to $2,260, inclusive of HST (2018 - $2,300).

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.

5. Unitholders' entitlements (continued):

(b) Tax designations and elections:

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

(c) Redemption and recirculation 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.

The Trust has the right to enter into a Recirculation Agreement prior to the Annual Redemption Date with one or more investment dealers designated by the Investment Manager. Through the recirculation process, interested purchasers have the opportunity to purchase units surrendered for redemption prior to the Annual Redemption Payment Date. During the year ended December 31, 2019, 60,542 units (2018 - 56,961) of the 60,542 redeemable units tendered for redemption (2018 - 56,961) were recirculated.

(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 28, 2019 and $0.15 per unit on December 30, 2019 for total distributions of $501,861 (2018 - $501,861).

As at December 31, 2019, the Trust had cumulative net capital losses of $10,771,758 (2018 - $9,307,590) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

5. Unitholders' entitlements (continued):

As at December 31, 2019, the Trust had non-capital losses of $816,767 (2018 - $282,617) for income tax purposes that may be carried forward and applied to reduce future years' 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 assets attributable to holders of redeemable units per unit calculated on the redemption date.

	2019	2018
Redeemable units, beginning of year	1,672,870	1,672,870
Redeemable units tendered for redemption	(60,542)	(56,961)
Recirculation of redeemable units tendered for redemption	60,542	56,961
Redeemable units, end of year	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. The Investment Manager does not use soft dollar arrangements for the payment of third party products or other services.

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, 2019 (2018 - 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.

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 December 31, 2019 and 2018.

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. 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):

As at December 31, 2019, the market value of the Trust's debt portfolio was $8,192,862 (27.6% of net assets attributable to holders of redeemable units) (2018 - $8,065,662 (28.0% of net assets attributable to holders of redeemable units)), and comprised of note subscription receipts (1.8% and 0.0% of net assets attributable to holders of redeemable units as at December 31, 2019 and 2018), non-defaulted bonds (2.3% and 3.5% of net assets attributable to holders of redeemable units as at December 31, 2019 and 2018, respectively) and defaulted bonds (23.5% and 24.5% of net assets attributable to holders of redeemable units for December 31, 2019 and 2018, respectively).

As at December 31, 2019, the market value of the Trust's foreign exchange contracts was $157,781 (2018 - ($161,685)), entered into in order to hedge the Trust's exposure to the U.S. dollar. The Bank of Montreal was the counterparty which is rated AA (low) by DBRS.

(b) Liquidity risk:

The Trust's cash and cash equivalent positions are a readily available source of liquidity. The Investment Manager utilizes the Trust's liquidity to make investments on behalf of the Trust and to meet the Trust's financial obligations as they become due. In addition, the Trust can raise additional liquidity through the sale of its investments.

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 the annual redemption right of unitholders. As per the Declaration of Trust, the Trust has 35 business days' 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.

One measure of the Trust's liquidity to meet any such obligation is the amount of cash, cash equivalent positions and listed securities held by the Trust, expressed as a percentage of net assets attributable to holders of redeemable units. As of December 31, 2019, the Trust held $5,992,900 of cash (2018 - $8,854,534) and $12,371,973 of publicly listed securities (2018 - $10,906,224) that aggregates to 61.8% of net assets attributable to holders of redeemable units (2018 - 68.6%). The Investment Manager believes that all of the Trust's securities can be sold within the applicable 35-business-day notice period for the annual redemption right. However, the Investment Manager may not be able to do so without adversely impacting transaction prices.

9. Financial instruments risk management (continued):

(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. The Trust's exposure to another currency is as follows:

December 31, 2019:

	Exposure				Impact of +/- 1% on net assets attributable to holders of redeemable units
Currency	Cash and cash equivalents	Financial assets	Foreign exchange contract	Total	Total
United States dollar	$ 433,105	$ 17,518,060	$ (14,604,750)	$ 3,346,415	$ 33,464
% of net assets attributable to holders of redeemable units	1.5	59.0	(49.2)	11.3	0.1

9. Financial instruments risk management (continued):

December 31, 2018:

	Exposure				Impact of +/- 1% on net assets attributable to holders of redeemable units
Currency	Cash and cash equivalents	Financial assets	Foreign exchange contract	Total	Total
United States dollar	$ 13,296	$ 16,082,183	$ (15,330,060)	$ 765,419	$ 7,654
% of net assets attributable to holders of redeemable units	0.1	55.8	(53.2)	2.7	0.0

As at December 31, 2019, 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 0.1% ($33,464) (2018 - 0.0% ($7,654)). 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.

9. Financial instruments risk management (continued):

The Trust has exposure to note subscription receipts (1.8% of net assets (2018 - 0.0%), high yield bonds (2.3% of net assets (2018 - 3.5%)) and defaulted bonds (23.5% of net assets (2018 - 24.5%)) 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 high yield bonds do have a degree of interest rate risk, which is summarized in the table below.

As at December 31, 2019, 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:

	2019	2018
Market by maturity date*:		
1 - 3 years	$ 207,860	$ 1,011,685
3 - 5 years	469,732	–
Sensitivity to 25 bps yield change increase or decrease net assets	$ 3,673	$ 2,298

*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.

9. Financial instruments risk management (continued):

As at December 31, 2019, 41.6% (2018 - 37.9%) 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 end of the year, with all other factors remaining constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately 4.2% ($1,237,197) (2018 - 3.8% ($1,090,622)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

(iv) Concentration risk:

Concentration risk arises as a result of the concentration of exposures within the same category, whether geographical location, product type, industry sector or counterparty type. In particular, the key concentration risk for the Trust is its exposure to any single security or issuer. As at December 31, 2019, the Trust held an investment in one bond which represented approximately 21.6% (2018 - 22.4%) on a fair value basis and 8.3% (2018 - 6.9%) on a cost basis of net assets attributable to holders of redeemable units.

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

2019	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Fixed income	$ –	$ 1,244,132	$ 6,948,729	$ 8,192,861
Equities	11,694,381	2,104,528	1,666,404	15,465,313
	11,694,381	3,348,660	8,615,133	23,658,174
Foreign exchange contract	–	157,781	–	157,781
	$ 11,694,381	$ 3,506,441	$ 8,615,133	$ 23,815,955

2018	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Fixed income	$ 1,011,685	$ 596,379	$ 6,457,598	$ 8,065,662
Equities	9,894,455	1,908,398	1,230,646	13,033,499
Warrants/options	–	84	–	84
	10,906,140	2,504,861	7,688,244	21,099,245
Foreign exchange contract	–	(161,685)	–	(161,685)
	$ 10,906,140	$ 2,343,176	$ 7,688,244	$ 20,937,560

10. Fair value measurements (continued):

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

	Beginning of year, January 1, 2019	Transfer from (to) Level 1	Transfer from (to) Level 2	Unrealized fair value gain (loss)	Sales, purchases, realized gains and other movements	End of year, December 31, 2019
Specialty Foods Group LLC, Post closing payment rights	$ 196,137	$ –	$ –	$ 114,232	$ (219,605)	$ 90,764
GXI Acquisition Corp. - equity	668,378	–	–	175,540	209,129	1,053,047
Old PSG Wind Down - equity	366,131	–	–	(17,889)	–	348,242
Crystallex International Corp.	6,457,598	–	–	(495,424)	463,530	6,425,704
Delphi Energy Corp. Equity Subscription Receipts	–	–	–	–	174,351	174,351
Delphi Energy Corp. Note Subscription Receipts	–	–	–	–	523,025	523,025
Total	$ 7,688,244	$ –	$ –	$ (223,541)	$ 1,150,430	$ 8,615,133

The Trust did not have any significant transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy for the year ended December 31, 2019.

10. Fair value measurements (continued):

	Beginning of year, January 1, 2018	Transfer from (to) Level 1	Transfer from (to) Level 2	Unrealized fair value gain (loss)	Sales, purchases, realized gains and other movements	End of year, December 31, 2018
Speciality Food Group LLC	$ 18,929	$ –	$ –	$ (18,731)	$ (198)	$ –
Speciality Food Group LLC, Class 1 preferred shares	1,175,032	–	–	83,077	(1,258,109)	–
Speciality Food Group LLC, Class 2 preferred shares	2,439,481	–	–	1,960,029	(4,399,510)	–
Speciality Food Group LLC, Post closing payment rights	–	–	–	–	196,137	196,137
GXI Acquisition Corp. - equity	1,126,500	–	–	(458,122)	–	668,378
Old PSG Wind Down - equity	263,618	–	–	102,513	–	366,131
GuestLogix - debenture	19,558	–	–	19,650	(39,208)	–
Dealnet Capital Corp. - debenture	1,454,600	–	–	295,400	(1,750,000)	–
Crystallex International Corp.	2,981,639	–	–	3,375,371	100,588	6,457,598
Total	$ 9,479,357	$ –	$ –	$ 5,359,187	$ (7,150,300)	$ 7,688,244

The Trust did not have any significant transfers between Level 1, Level 2 and Level 3 included in the fair value hierarchy for the year ended December 31, 2018.

10. Fair value measurements (continued):

The tables below set out information about significant unobservable inputs used as at December 31, 2019 and 2018 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value, December 31, 2019	Valuation technique	Unobservable input	Input value	Sensitivity to changes in significant unobservable inputs
Unlisted private equity	$ 90,764	Expected future distributions	Reserve for potential representative expense and indemnity claim adjustments	$ 1,457,494	The estimated fair value would increase (decrease) by $17,815 or 20% for each 25% (decrease) increase in the reserve amount. Net assets attributable to holders of redeemable units would increase (decrease) by 0.1%.
Unlisted private equity	1,053,047	Present value of expected future cash flows	Discount rate	Mid-point of high-case scenario of 30% and low-case scenario of 35%	The estimated fair value would increase (decrease) by $167,086 ($141,276) or 16% (13%) for each 500 bps (decrease) increase in the discount rate. Net assets attributable to holders of redeemable units would increase (decrease) by 0.6% (0.5%).
Unlisted equity	348,242	Expected future distributions	Projected distributions	$0.52 per share	The estimated fair value would increase (decrease) by $53,576 or 15% for each $0.08 increase (decrease) in projected distributions per share. Net assets attributable to holders of redeemable units would increase (decrease) by 0.2%.
Defaulted bonds	6,425,704	Broker quote (mid)	Broker quote	Mid-point of $110 - $140 per $100 face value	The estimated fair value would increase (decrease) by $771,085 or 12% using the high (low) end the range. Net assets attributable to holders of redeemable units would increase (decrease) by 2.6%.
Unlisted equity subscription receipts	174,351	Cost	n/a	n/a	No input value to sensitize.
Unlisted note subscription receipts	523,025	Cost	n/a	n/a	No input value to sensitize.
	$ 8,615,133				

10. Fair value measurements (continued):

Description	Fair value, December 31, 2018	Valuation technique	Unobservable input	Input value	Sensitivity to changes in significant unobservable inputs
Unlisted private equity	$ 196,137	Expected future distributions	Post closing adjustment escrow claim/reserve amount	$1,184,430	The estimated fair value would increase (decrease) by $15,221 or 8% for each 25% (decrease) increase in the claim/reserve amount. Net assets attributable to holders of redeemable units would increase (decrease) by 0.1%.
Unlisted private equity	668,378	Present value of expected future cash flows	Discount rate	30%	The estimated fair value would increase (decrease) by $66,317 ($58,679) or 10% (9%) for each 500 bps (decrease) increase in the discount rate. Net assets attributable to holders of redeemable units would increase (decrease) by 0.2%.
Unlisted equity	366,131	Expected future distributions	Projected distributions	$0.52 per share	The estimated fair value would increase (decrease) by $56,328 or 15% for each $0.08 increase (decrease) in projected distributions per share. Net assets attributable to holders of redeemable units would increase (decrease) by 0.2%.
Defaulted bonds	6,457,598	Average of broker quotes and last price	Broker quote	$106 - $155 per $100 face value	The estimated fair value would increase (decrease) by $1,415,973 ($1,054,043) or 22% (16%) using the high (low) end of the range. Net assets attributable to holders of redeemable units would increase (decrease) by 4.9% (3.7%).
	$ 7,688,244				

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 third-party pricing sources, which is reviewed and approved by the Investment Manager.

10. Fair value measurements (continued):

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 are initially recorded at amortized cost 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 considered a residual interest in the assets of the Trust after deducting all of its liabilities. The redemption value of redeemable units is equal to net assets attributable to holders of redeemable units as calculated 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).

11. 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 Declaration of Trust. 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.

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