Financial Statements of

RAVENSOURCE FUND

June 30, 2017 and 2016

RAVENSOURCE FUND

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June 30, 2017 and 2016

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 23, 2017
Date

NOTICE TO UNITHOLDERS

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

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

RAVENSOURCE FUND

Statements of Financial Position
As at June 30, 2017 (Unaudited)

		June 30, 2017		December 31, 2016
ASSETS				
Current assets				
Cash and equivalents	$	4,801,628	$	3,209,544
Financial assets designated at fair value through profit or loss (cost - $18,384,531; 2016 - $16,205,732) (note 3(a) and (c))		19,275,630		21,057,920
Financial assets held for trading (cost - 8,933; 2016 - $8,933) (note 3(a), (b) and (c))		4,606		10,878
Interest and dividends receivable		28,061		44,061
		24,109,925		24,322,403
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		120,734		79,288
Management and administrative fees payable (note 4(b) and (c))		76,395		53,551
Incentive fees payable (note 4(d))		123,527		123,527
		320,656		256,366
Net assets attributable to holders of redeemable units	$	23,789,269	$	24,066,037
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)	$	14.22	$	14.39

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
For the six-months ended June 30, 2017 (Unaudited)

	2017	2016
Income		
Dividends and income trust distributions	$ 70,314	$ 95,364
Interest income for distribution purposes	13,370	9,267
Net change in fair value on financial assets at fair value through profit or loss (note 11):		
Net realized gain on sale of investments, including foreign exchange adjustments	4,123,012	808,710
Net change in unrealized loss on forward contract	–	(63,000)
Net change in unrealized (loss) gain on financial assets	(3,897,614)	740,205
	309,082	1,590,546
Expenses		
Management fees (note 4(b))	90,128	83,686
Administrative fees (note 4(c))	48,531	45,061
Legal fees	43,370	13,788
Other	43,277	6,991
Accounting fees	13,041	14,087
Audit fees	12,032	12,424
Trust administration and transfer agency fees	9,918	9,945
Listing fees	8,430	8,454
Investor relations fees (note 4(e))	6,706	6,743
Transaction	4,943	2,949
Independent review committee fees	1,978	3,437
Withholding tax	1,588	1,540
Incentive fee (note 4(d))	–	184,068
Impact of management and administrative fee reductions (note 4(a))	(66,124)	(65,811)
	217,818	327,362
Increase in net assets attributable to holders of redeemable units	$ 91,264	$ 1,263,184
Average number of units outstanding	1,672,870	1,674,670
Increase in net assets attributable to holders of redeemable units per unit	$ 0.05	$ 0.75

See accompanying notes to financial statements.

RAVENSOURCE FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
For the six-months ended June 30, 2017 (Unaudited)

	Net assets attributable to holders of redeemable units, beginning of period	Increase in net assets attributable to holders of redeemable units	Distributions paid to holders of redeemable units (note 5(d))	Net assets attributable to holders of redeemable units, end of period
June 30, 2017	$ 24,066,037	$ 91,264	$ (368,032)	$ 23,789,269

	Net assets attributable to holders of redeemable units, beginning of period	Increase in net assets attributable to holders of redeemable units	Distributions paid to holders of redeemable units (note 5(d))	Net assets attributable to holders of redeemable units, end of period
June 30, 2016	$ 22,921,106	$ 1,263,184	$ (251,201)	$ 23,933,089

See accompanying notes to financial statements.

RAVENSOURCE FUND

Statements of Cash Flows
For the six-months ended June 30, 2017 (Unaudited)

	2017	2016
Cash provided by (used in):		
Operating Activities		
Increase in net assets attributable to holders of redeemable units	$ 91,264	$ 1,263,184
Adjustments for non-cash items		
Net change in unrealized loss (gain) on financial assets	3,897,614	(740,205)
Net realized gain on sale of investments, including foreign exchange adjustments	(4,123,012)	(845,353)
Net change in unrealized loss on forward contract	–	63,000
Change in non-cash balances		
Decrease in interest and dividends receivable	16,000	7,419
Increase in management and administrative fees payable	22,844	4,768
Increase in incentive fees payable	–	70,465
Increase (decrease) in accounts payable and accrued liabilities	41,446	(23,632)
Proceeds from sale of investments	4,819,050	531,334
Purchase of investments	(2,867,497)	(1,192,081)
Cash provided by (used in) operating activities	1,897,709	(861,101)
Financing Activities		
Distributions paid to holders of redeemable units	(368,032)	(251,201)
Cash used in financing activities	(368,032)	(251,201)
Increase (decrease) in cash and equivalents during the period	1,529,677	(1,112,292)
Foreign exchange gain on cash	62,407	163,796
Cash and equivalents, beginning of period	3,209,544	6,487,078
Cash and equivalents, end of period	$ 4,801,628	$ 5,538,582
Supplemental information*		
Interest paid	$ 27,696	$ 10,177
Interest received	20,693	33,019
Dividends received, net of withholding taxes	77,404	87,668

*Included as a part of cash flows from operating activities

See accompanying notes to financial statements.

RAVENSOURCE FUND

Schedule of Investment Portfolio
As at June 30, 2017 (Unaudited)

Number of shares/units	Investments owned	Average cost	Fair value	% of net asset value
	Canadian equities			
47,700	Canwel Holdings Corp.	$ 341,059	$ 311,958	1.31
2,863	Cardinal Energy Ltd.	3,429	13,800	0.06
228,100	Chinook Energy Inc.	102,645	76,414	0.32
8,028	Connacher Oil and Gas Ltd.	223,500	–	–
1,000	Crystallex International Corp.	90	82	–
13,920	Dundee Corp. Preferred Shares 7.5%	309,098	323,918	1.36
70,100	Equity Financial Holdings Inc.	648,664	522,245	2.20
315,843	Glacier Media Inc.	483,043	192,664	0.81
1,146,900	Grenville Strategic Royalty Corp.	172,519	143,363	0.60
21,100	GVIC Comm - Class B	17,091	3,376	0.01
22,500	GVIC Comm - Class C	18,045	225	–
4,800	Indigo Books & Music Inc.	24,368	74,400	0.31
110,365	InPlay Oil Corp.	211,901	160,029	0.67
40,393	Manitok Energy Inc.	4,241	2,828	0.01
1,750,000	NAPEC Inc.	1,473,750	1,995,000	8.39
655,000	Northern Frontier Corp.	1,187,071	–	–
58,400	NuVista Energy Ltd.	312,183	381,936	1.61
248,033	Plazacorp Retail Properties Ltd.	293,304	1,140,952	4.80
2,378	Point Loma Resources Ltd.	261	916	–
174,200	Supremex Inc.	396,824	825,708	3.47
83,900	Ten Peaks Coffee Company Inc.	237,487	525,214	2.21
		6,460,573	6,695,028	28.14
	Canadian warrant			
8,375	Dundee Corp. $6 June 30, 2019	8,933	4,606	0.02
	U.S. equities			
296,667	Firm Capital American Realty Partners Corp.	2,546,063	2,058,081	8.65
350,000	Genworth Financial Inc.	1,772,831	1,706,457	7.17
888,084	GXI Acquisition Corp.	1,179,072	1,162,310	4.89
515,766	Old PSG Wind-Down Ltd.	700,858	401,276	1.69
13,157	Quad Graphics Inc.	595,635	390,519	1.64
1,323,256	SeaCo Ltd.	–	343	–
15,062	Specialty Food Group LLC.	–	19,531	0.08
28,333	Specialty Food Group LLC. Class 1 Preferred Shares	–	1,212,353	5.10
90,663	Specialty Food Group LLC. Class 2 Preferred Shares	–	1,642,856	6.91
		6,794,459	8,593,726	36.13

See accompanying notes to financial statements.

RAVENSOURCE FUND

Schedule of Investment Portfolio
As at June 30, 2017 (Unaudited) (continued)

Number of shares/units	Investments owned	Average cost	Fair value	% of net asset value
	Fixed income			
10,128	Connacher Oil & Gas Ltd. 12.00% due August 31, 2018	$ 12,399	$ –	–
3,650,000	Crystallex International Corp. 9.375% due December 30, 2011 *	1,889,122	3,549,716	14.92
1,000,000	Delphi Holdings Corp. 6.55% due June 15, 2006 *	732,498	62,501	0.26
1,043,000	Exall Energy Corp. 7.75% due March 31, 2017 *	352,036	–	–
6,000	Gasfrac Energy Services Inc. 7% due February 28, 2017 *	4,207	–	–
468,000	Grenville Strategic Royalty Corp. 8% due December 31, 2019	362,373	365,040	1.53
641,260	GuestLogix Inc. 7% due December 31, 2019 *	–	9,619	0.04
4,284,000	Ivanhoe Energy Inc. 5.75% due June 30, 2016 *	1,776,864	–	–
		5,129,499	3,986,876	16.75
	Total investments owned	18,393,464	19,280,236	81.04
	Brokerage commissions	(30,180)	–	–
	Total portfolio of investments	**$ 18,363,284**	19,280,236	81.04
	Other assets, net		4,509,033	18.96
	Net assets		**$ 23,789,269**	**100.00**

* Defaulted

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. The officers of the Investment Manager own 162,800 (2016 - 166,800) units, representing 9.7% (2016 - 9.9%) of the outstanding units as at June 30, 2017.

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 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:

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements and International Accounting Standard 34, Interim Financial Reporting. The Fund reports under this basis of accounting as required by Canadian Securities Legislation and Canadian Accounting Standards Board.

The policies applied in these financial statements are based on IFRS in effect as at August 23, 2017, which is the date on which the financial statements were authorized for issue by the Investment Manager.

3. Significant accounting policies:

Accounting standard issued but not yet adopted:

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

The final version of IFRS 9, Financial Instruments ("IFRS 9"), was issued by the IASB in July 2014 and will replace International Accounting Standard 39, Financial Instruments - Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018; however, it is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Trust is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

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

(a) Valuation of investments:

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

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

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

3. Significant accounting policies (continued):

(b) Valuation of forward contract:

The Trust entered 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.

(c) Classification:

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

This category has two sub-categories: financial assets or financial liabilities held-for-trading; and those designated at FVTPL at inception.

(i) Financial assets and financial liabilities held-for-trading:

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

(ii) Financial assets and financial liabilities designated at FVTPL:

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

3. Significant accounting policies (continued):

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

(d) 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.

(e) Recognition/derecognition:

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

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

3. Significant accounting policies (continued):

(f) Income recognition:

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

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

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

(g) 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.

(h) 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 on financial assets.

3. Significant accounting policies (continued):

(i) 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.

(j) Use of estimates:

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

(k) Cash and cash equivalents:

Cash and cash equivalents represent cash positions, as well as any trades that are in transit as at June 30, 2017 and December 31, 2016.

(l) 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 period.

(m) Increase in net assets attributable to holders of redeemable units per unit:

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

4. Related party transactions:

(a) Specialty Foods Group Inc. Services Agreement:

The Trust has an investment in the securities of Specialty Foods Group Inc. ("SFG"). Another fund managed by the Investment Manager also has an investment in SFG securities. A senior executive of the Investment Manager is also a member of the Board of Directors of SFG. During 2012, the Investment Manager entered into a services agreement with SFG (the "SFG Services Agreement"), whereby the Investment Manager is to provide strategic advice and analysis to SFG and, in return, will earn a fee for these services. As per its internal policy and approved by the Trust's Independent Review Committee, the Investment Manager reduced the management fees and administrative fees that it charges to the Trust in order to pass along the economic benefit of the fees earned by the Investment Manager from the SFG Services Agreement in an amount proportionate to the Trust's relative investment in SFG securities. During the period ended June 30, 2017, the Investment Manager reduced management fees by $38,036 (2016 - $37,856) and reduced administrative fees by $20,481 (2016 - $20,384), which fees and costs would have been subject to harmonized sales tax ("HST"). Therefore, the total impact of fee reductions amounted to $66,124 inclusive of HST (2016 - $65,811). 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:

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

4. Related party transactions (continued):

The net management fees for the period ended June 30, 2017 amounted to $47,148 (2016 - $40,908). The Investment Manager reduced the net management fees by $38,036 (2016 - $37,856), 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 $90,128, inclusive of HST (2016 - $83,686). The net management fees payable as at June 30, 2017 amounted to $39,219, including HST (December 31, 2016 - $24,370).

(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

The net administrative fees for the period ended June 30, 2017 amounted to $25,387 (2016 - $22,028). The Investment Manager reduced the net administrative fees by $20,481 (2016 - $20,384), as described in further detail in (a). In the absence of the net administrative fees reduction, total net administrative fees for 2017 would have amounted to approximately $48,531, inclusive of HST (2016 - $45,061). The net administrative fees payable as at June 30, 2017 amounted to $21,118, including HST (December 31, 2016 - $13,123).

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 period, exceeds the net assets attributable to holders of redeemable units per unit at the beginning of the period by more than 5%, plus any shortfall from the prior period. This fee is accrued monthly but calculated and paid annually. Incentive fee expense for the period ended June 30, 2017 amounted to $nil (2016 - $184,068), inclusive of HST. The incentive fee payable as at June 30, 2017 amounted to $123,527 including HST (December 31, 2016 - $123,527), representing incentive fees calculated for the year ended December 31, 2016 and not yet paid to the Investment Manager.

(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, 2017 amounted to $6,706, inclusive of HST (2016 - $6,743).

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.

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 $0.22 per unit on June 30, 2017 for total distributions of $368,032 (2016 - $251,201).

As at December 31, 2016, the Trust had cumulative net capital losses of $16,780,089 (2015 - $16,751,698) for income tax purposes that may be carried forward and applied to reduce future net capital gains.

As at December 31, 2016, the Trust had non-capital losses of $45,250 (2015 - $199,098) 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.

	June 30, 2017	June 30, 2016
Redeemable units, beginning of period	1,672,870	1,674,670
Redeemable units, end of period	1,672,870	1,674,670

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, 2017 (2016 - 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.

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, 2017 and December 31, 2016.

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, 2017, the market value of the Trust's debt portfolio was $3,986,876 (16.8% of net assets attributable to holders of redeemable units) (December 31, 2016 - $3,643,509 (15.1% of net assets attributable to holders of redeemable units)). The debt portfolio is comprised of interest-paying high-yield bonds (1.5% and 0.5% of net assets attributable to holders of redeemable units for June 30, 2017 and December 31, 2016, respectively) and defaulted bonds (15.3% and 14.6% of net assets attributable to holders of redeemable units for June 30, 2017 and December 31, 2016, respectively). As at June 30, 2017 and December 31, 2016, the Trust did not hold any forward contracts.

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

9. Financial instruments risk management (continued):

(b) Liquidity risk:

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

The Trust's exposure to liquidity risk primarily relates to annual redemption of units. 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. In addition, the Trust 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, 2017:

	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units		
Currency	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	$ (3,183,706)	$ 12,205,943	$ 9,022,237	$ (31,837)	$ 122,059	$ 90,222
% of net assets attributable to holders of redeemable units	(13.4)	51.3	37.9	(0.1)	0.5	0.4

9. Financial instruments risk management (continued):

December 31, 2016:

	Exposure			Impact of +/- 1% on net assets attributable to holders of redeemable units		
Currency	Cash and cash equivalents	Financial assets	Total	Cash and cash equivalents	Financial assets	Total
United States dollar	$ (3,992,394)	$ 12,882,888	$ 8,890,494	$ (39,924)	$ 128,829	$ 88,905
% of net assets attributable to holders of redeemable units	(16.6)	53.5	36.9	(0.2)	0.5	0.3

As at June 30, 2017, 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 0.4% ($90,222) (December 31, 2016 - 0.3% ($88,905)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

(ii) Interest rate risk:

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

As the Trust has exposure to high yield bonds (1.5% of net assets (December 31, 2016 - 0.7%)) and defaulted bonds (15.3% of net assets (December 31, 2016 - 14.6%)) with no exposure to government bonds. The Trust's defaulted bond investments tend to be affected more by changes in overall economic growth, company-specific fundamentals, and the achievement of restructuring milestones rather than changes in interest rates. However, the Trust's high yield bond investments do have a degree of interest rate risk, which is illustrated in the table below.

9. Financial instruments risk management (continued):

As at June 30, 2017, the Trust's exposure to 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:

	2017	2016
Market by maturity date*:		
1 - 3 years	365,040	161,876
Sensitivity to 25 bps yield change increase or decrease net assets	1,894	1,141

*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, 2017, 48.9% (December 31, 2016 – 45.5%) 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 period end, with all other factors remaining constant, net assets attributable to holders of redeemable units could possibly have increased or decreased by approximately 4.9% ($1,162,135) (December 31, 2016 - 4.5% ($1,094,343)). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

10. Fair value measurements:

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

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

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

June 30, 2017	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	$ –	$ 3,977,257	$ 9,619	$ 3,986,876
Equities	11,251,622	82	4,037,505	15,288,754
Warrants and options	4,606	–	–	4,606
	$ 11,256,228	$ 3,977,339	$ 4,046,669	$ 19,280,236

December 31, 2016	Level 1	Level 2	Level 3	Total
Investments:				
Bonds	$ 127,709	$ 3,481,621	$ 34,179	$ 3,643,509
Equities	10,804,842	–	6,609,569	17,414,411
Warrants and options	10,878	–	–	10,878
	$ 10,943,429	$ 3,481,621	$ 6,643,748	$ 21,068,798

During the period ended June 30, 2017, there were no transfers between levels.

During the year ended December 31, 2016, there was one transfer from Level 1 to Level 3 in the amount of $34,179 as GuestLogix debentures were delisted from the exchange. 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, 2016.

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 period, January 1, 2017	Transfer from Level 1	Unrealized fair value gain(loss)	Sales or purchases	End of period, June 30, 2017
Assets					
SFG - equity	$ 5,406,026	$ –	$ (2,848,464)	$ (2,557,562)	$ –
Specialty Food Group LLC.	–	–	19,531	–	19,531
Specialty Food Group LLC. Class 1 Preferred Shares	–	–	1,212,353	–	1,212,353
Specialty Food Group LLC. Class 2 Preferred Shares	–	–	1,642,856	–	1,642,856
GuestLogix - debenture	34,179	–	3,353	(27,913)	9,619
GXI Acquisition Corp. - equity	1,203,543	–	(41,233)	–	1,162,310
	$ 6,643,748	$ –	$ (11,604)	$ (2,585,475)	$ 4,046,669

	Beginning of period, January 1, 2016	Transfer from Level 1	Unrealized fair value gain	Sales or purchases	End of period, December 31, 2016
SFG - equity	$ 5,162,893	$ –	$ 243,133	$ –	$ 5,406,026
GuestLogix - debenture	–	34,179	–	–	34,179
GXI Acquisition Corp. - equity	–	–	24,471	1,179,072	1,203,543
	$ 5,162,893	$ 34,179	$ 267,604	$ 1,179,072	$ 6,643,748

10. Fair value measurements (continued):

The tables below set out information about significant unobservable inputs used as at June 30, 2017 and December 31, 2016 in measuring financial instruments categorized in Level 3 in the fair value hierarchy:

Description	Fair value, June 30, 2017	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	$ 2,874,740	Present value of expected future distributions received	EBITDA multiple	6.00x EBITDA. No alternative assumption to disclose	Estimated fair value would increase (decrease) by $288,522 or 10.0% for each 0.5x increase (decrease) in the EBITDA multiple
			Discount rate	10% discount rate. No alternative assumption to disclose	Estimated fair value would increase (decrease) by $26,374 or 0.9% for each 100 bps decrease (increase) in the discount rate
Unlisted private equity investments	1,162,310	Recent transaction	n/a	. n/a	n/a
Defaulted bonds	9,619	Broker quotes	n/a	. n/a	n/a
	$ 4,046,669				

Description	Fair value, December 31, 2016	Valuation technique	Unobservable input	Range (weighted average)	Sensitivity to changes in significant unobservable inputs
Unlisted private equity investments	$ 5,406,026	Present value of expected future distributions received	EBITDA multiple	5.00x EBITDA. No alternative assumption to disclose	Estimated fair value would increase (decrease) by $298,763 or 5.2% for each 0.5x increase (decrease) in the EBITDA multiple
			Discount rate	3% to 10% discount rate (6.6% weighted average)	Estimated fair value would increase (decrease) by $31,013 or 0.5% for each 100 bps decrease (increase) in the discount rate
Unlisted private equity investments	1,203,543	Recent transaction	n/a	. n/a	n/a
Defaulted bonds	34,179	Broker quotes	n/a	. n/a	n/a
	$ 6,643,748				

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.

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 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).

11. Net gain from financial assets at FVTPL:

	June 30, 2017	June 30, 2016
Net realized gain (loss) on financial assets:		
Financial assets held-for-trading	$ -	$ 464,000
Financial assets designated at FVTPL	4,060,605	344,710
	4,060,605	808,710
Net change in unrealized gain (loss) on financial assets:		
Financial assets held-for-trading	(6,282)	(49,767)
Financial assets designated at FVTPL	(3,891,332)	726,972
	(3,897,614)	677,205
	$ 162,991	$ 1,485,915

11. Net gain from financial assets at FVTPL (continued):

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 period, or the transaction price if it was purchased during the reporting period, and its sale or settlement price.

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

12. 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.