Financial Statements of

# THE McELVAINE INVESTMENT TRUST

Year ended December 31, 2015

**KPMG LLP**
**Chartered Professional Accountants**
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

# INDEPENDENT AUDITORS' REPORT

To the Unitholders of The McElvaine Investment Trust

We have audited the accompanying financial statements of the McElvaine Investment Trust, which comprise the statement of financial position as at December 31, 2015, the statements of comprehensive income, changes in net assess attributable to holders of redeemable units and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of The McEvlaine Investment Trust as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants

February 17, 2016
Vancouver, Canada

# THE McELVAINE INVESTMENT TRUST

Statement of Financial Position

December 31, 2015, with comparative information for 2014

| | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Cash | $ 5,723,562 | $ 5,852,464 |
| Interest and dividends receivable | 77,321 | 132,980 |
| Derivative assets: | | |
| Forwards | 6,935 | 43,174 |
| Options and warrants | 402,578 | 82,946 |
| | 409,513 | 126,120 |
| Investments | 25,284,524 | 29,700,443 |
| | 31,494,920 | 35,812,007 |
| **Liabilities** | | |
| Subscriptions received in advance | - | 9,000 |
| Payable for investments purchased | 128,594 | - |
| Other accrued liabilities | 76,714 | 87,799 |
| Derivative liabilities: | | |
| Forwards | 181,125 | - |
| | 386,433 | 96,799 |
| **Net assets attributable to holders of redeemable units** | $ 31,108,487 | $ 35,715,208 |
| Represented by: | | |
| Series A | $ 1,463 | $ 1,643 |
| Series B | 30,223,293 | 35,153,130 |
| Series C | 9,108 | - |
| Series F | 679,600 | 82,379 |
| Series X | 195,023 | 478,056 |
| | $ 31,108,487 | $ 35,715,208 |
| Net assets attributable to holders of redeemable units per unit: | | |
| Series A | $ 14.63 | $ 16.40 |
| Series B | 19.25 | 21.36 |
| Series C | 9.11 | - |
| Series F | 9.72 | 8.98 |
| Series X | 7.63 | 8.53 |

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

Approved on behalf of the Manager:

_______________ Director

# THE McELVAINE INVESTMENT TRUST

Statement of Comprehensive Income

Year ended December 31, 2015, with comparative information for 2014

| | Note | 2015 | 2014 |
|---|---|---|---|
| Revenue: | | | |
| Interest income | | $ 200,000 | $ 194,999 |
| Dividend income | | 715,081 | 629,813 |
| Net foreign currency gain | | 138,380 | 95,089 |
| Changes in fair value of investments and derivatives: | 4 | | |
| Net realized gain (loss) | | (644,359) | 588,400 |
| Net change in unrealized appreciation (depreciation) | | (3,275,046) | 1,194,619 |
| Total revenue | | (2,865,944) | 2,702,920 |
| Expenses: | | | |
| Management fees | 5 | 373,295 | 401,988 |
| Brokerage commissions | | 58,428 | 60,786 |
| Trustee, custodial and legal | | 51,444 | 52,654 |
| Audit fees | | 46,785 | 32,850 |
| Withholding taxes | 6 | 4,259 | 5,328 |
| Other | | 5,920 | 672 |
| Total operating expenses | | 540,131 | 554,278 |
| Increase (decrease) in net assets attributable to holders of redeemable units from operations excluding distributions | | (3,406,075) | 2,148,642 |
| Distributions to holders of redeemable units: | | | |
| From net investment income | | 371,761 | 251,398 |
| From net realized gains on investments and derivatives | | - | - |
| | | 371,761 | 251,398 |
| Increase (decrease) in net assets attributable to holders of redeemable units | | $ (3,777,836) | $ 1,897,244 |
| Increase (decrease) in net assets attributable to holders of redeemable units: | | | |
| Series A | | $ (197) | $ 2,136 |
| Series B | | (3,711,006) | 1,860,938 |
| Series C | | (1,001) | - |
| Series F | | (44,871) | 3,974 |
| Series X | | (20,761) | 30,196 |
| | | $ (3,777,836) | $ 1,897,244 |
| Increase (decrease) in net assets attributable to holders of redeemable units per unit: | | | |
| Series A | | $ (1.97) | $ 0.71 |
| Series B | | (2.30) | 1.10 |
| Series C | | (1.00) | - |
| Series F | | (2.65) | 0.43 |
| Series X | | (0.72) | 0.41 |

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

# THE McELVAINE INVESTMENT TRUST

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

Year ended December 31, 2015, with comparative information for 2014

| | Series A | Series B | Series C | Series F | Series X | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2014 | $ 1,643 | $ 35,153,130 | $ - | $ 82,379 | $ 478,056 | $ 35,715,208 |
| Decrease in net assets attributable to holders of redeemable units | (197) | (3,711,006) | (1,001) | (44,871) | (20,761) | (3,777,836) |
| Redeemable unit transactions: | | | | | | |
| Issue of redeemable units | - | 61,283 | 10,000 | - | - | 71,283 |
| Reinvestment of distributions | 17 | 361,182 | 109 | 8,122 | 2,331 | 371,761 |
| Redemption of redeemable units | - | (987,776) | - | (19,550) | (264,603) | (1,271,929) |
| Transfer In / Transfer Out | - | (653,520) | - | 653,520 | - | - |
| Net increase (decrease) from redeemable unit transactions | 17 | (1,218,831) | 10,109 | 642,092 | (262,272) | (1,200,646) |
| Balance, December 31, 2015 | $ 1,463 | $ 30,223,293 | $ 9,108 | $ 679,600 | $ 195,023 | $ 31,108,487 |

| | Series A | Series B | Series C | Series F | Series X | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2013 | $ 51,767 | $ 35,181,019 | $ - | $ 77,825 | $ 622,248 | $ 35,932,859 |
| Increase in net assets attributable to holders of redeemable units | 2,136 | 1,860,938 | - | 3,974 | 30,196 | 1,897,244 |
| Redeemable unit transactions: | | | | | | |
| Issue of redeemable units | - | 352,394 | - | - | - | 352,394 |
| Reinvestment of distributions | 12 | 247,441 | - | 580 | 3,365 | 251,398 |
| Redemption of redeemable units | (52,272) | (2,488,662) | - | - | (177,753) | (2,718,687) |
| Net increase (decrease) from redeemable unit transactions | (52,260) | (1,888,827) | - | 580 | (174,388) | (2,114,895) |
| Balance, December 31, 2014 | $ 1,643 | $ 35,153,130 | $ - | $ 82,379 | $ 478,056 | $ 35,715,208 |

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

# THE McELVAINE INVESTMENT TRUST

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

| | 2015 | 2014 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Increase (decrease) in net assets attributable to holders of redeemable units | $ (3,777,836) | $ 1,897,244 |
| Adjustments for: | | |
| Interest income | (200,000) | (194,999) |
| Dividend income, net of withholding tax | (710,822) | (629,813) |
| Foreign currency gain | (138,380) | (95,089) |
| Net realized (gain) loss from investments and derivatives | 644,359 | (588,400) |
| Net change in unrealized (appreciation) depreciation from investments and derivatives | 3,275,046 | (1,194,619) |
| Proceeds from sale of investments | 11,152,425 | 11,213,579 |
| Purchase of investments | (10,560,450) | (13,159,638) |
| Net realized losses on forward contracts settled | (197,729) | (39,950) |
| Net increase (decrease) in other accrued liabilities | (11,085) | 9,866 |
| Net increase (decrease) in subscriptions received in advance | (9,000) | 9,000 |
| Net increase (decrease) in balances due to brokers | 128,594 | (394,016) |
| Net increase (decrease) in redemptions payable | - | (1,127,562) |
| | (33,117) | (4,294,397) |
| Interest received | 200,000 | 192,417 |
| Dividends received | 766,481 | 616,819 |
| | 933,364 | (3,485,161) |
| Financing activities: | | |
| Proceeds from issue of redeemable units | 71,283 | 352,394 |
| Distributions to holders of redeemable units from net investment income | 371,761 | 251,398 |
| Payments on redemption of redeemable units | (1,271,929) | (2,718,687) |
| | (1,200,646) | (2,114,895) |
| Net decrease in cash | (128,902) | (5,600,056) |
| Cash, beginning of year | 5,852,464 | 11,357,431 |
| Effect of exchange rate fluctuations on cash | 138,380 | 95,089 |
| Cash, end of year | $ 5,723,562 | $ 5,852,464 |

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

# THE McELVAINE INVESTMENT TRUST

Schedule of Investment Portfolio

December 31, 2015

| | Coupon rate (%) | Maturity date | Number of shares / par value | Cost | Fair value |
|---|---|---|---|---|---|
| **Canadian - Equities:** | | | | | |
| Blackberry Ltd. | | | 100,000 | $ 785,535 | $ 1,284,000 |
| Canaccord Genuity Group Inc. | | | 100,000 | 501,110 | 511,000 |
| Carmanah Technologies Corp. | | | 500,000 | 661,297 | 2,840,000 |
| Deans Knight Income and Growth Fund | | | 44,800 | 4,928 | - |
| Dundee Corp. Class A | | | 150,000 | 1,708,013 | 684,000 |
| Glacier Media Inc. (note 5) | | | 4,000,000 | 5,857,850 | 2,960,000 |
| Hyduke Energy Services Inc. | | | 2,050,000 | 1,217,585 | 758,500 |
| Imperial Metals Corp. | | | 100,000 | 774,275 | 666,000 |
| Maxim Power Corp. | | | 172,100 | 442,906 | 509,417 |
| Noranda Income Fund | | | 500,000 | 1,125,253 | 1,165,000 |
| Orca Exploration Group Inc., Class B | | | 210,700 | 965,659 | 574,158 |
| Rainmaker Entertainment Inc. (note 5) | | | 1,900,000 | 3,968,585 | 475,000 |
| Sprott Resource Corp. | | | 1,000,000 | 914,792 | 470,000 |
| The Caldwell Partners International Inc., Class A | | | 992,000 | 830,168 | 1,418,560 |
| Village Farms International Inc. | | | 1,000,000 | 1,868,824 | 850,000 |
| Wajax Corp. | | | 25,000 | 394,540 | 419,750 |
| Total Canadian equities | | | | 22,021,320 | 15,585,385 |
| **United States - Equities** | | | | | |
| Leucadia National Corp. | | | 50,000 | 1,177,213 | 1,203,460 |
| Symphony International Holdings Ltd. | | | 1,000,000 | 813,486 | 1,003,460 |
| Voya Financial Inc. | | | 25,000 | 520,253 | 1,277,163 |
| WL Ross Holding Corp. | | | 25,000 | 278,179 | 344,637 |
| Total United States equities | | | | 2,789,131 | 3,828,720 |
| **Foreign - Equities** | | | | | |
| Bank of Cyprus PCL | | | 1,000,000 | 295,534 | 222,423 |
| BHF Kleinwort Benson Group. | | | 250,000 | 1,895,623 | 2,147,205 |
| Anglo American PLC | | | 75,000 | 1,128,182 | 458,342 |
| NBNK Investments PLC | | | 640 | 38,468 | 42,449 |
| Total foreign equities | | | | 3,357,807 | 2,870,419 |
| **Canada - Corporate Bonds** | | | | | |
| Rainmaker Entertainment Inc. (note 5) | 8.00% | March 31, 2016 | 2,500 | 2,500,000 | 3,000,000 |
| Total Canadian corporate bonds | | | | 2,500,000 | 3,000,000 |
| Less: transaction costs | | | | (36,269) | |
| **Total investment Portfolio** | | | | $30,631,989 | 25,284,524 |
| Derivatives: | | | | | |
| Forward contracts (Schedule 1) | | | | | (174,190) |
| Options and warrants (Schedule 2) | | | | | 402,578 |
| Other Net Assets | | | | | 5,595,575 |
| **Total Net Assets** | | | | | $ 31,108,487 |

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

# THE McELVAINE INVESTMENT TRUST

Schedule of Foreign Currency Forward Contracts Schedule 1

December 31, 2015

| Currency to be received at inception | Currency to be delivered at inception | Currency to be delivered at December 31 | Settlement date | Fair value |
|---|---|---|---|---|
| EUR 2,000,000 | CAD 2,974,800 | CAD 3,007,190 | January 13, 2016 | $ (32,390) |
| GBP 500,000 | CAD 1,026,725 | CAD 1,019,790 | January 13, 2016 | 6,935 |
| USD 2,000,000 | CAD 2,648,500 | CAD 2,767,557 | January 13, 2016 | (119,057) |
| USD 650,000 | CAD 869,778 | CAD 899,456 | January 13, 2016 | (29,678) |
| Net value | | | | $ (174,190) |

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

# THE McELVAINE INVESTMENT TRUST

Schedule of Option Contracts

Schedule 2

December 31, 2015

| Number of contracts | Description | Expiration date | Cost | Fair value |
|---|---|---|---|---|
| 1,000,000 | MBAC Fertilizer Corp., Warrant | April 17, 2019 | $ 49,925 | $ 5,000 |
| 1,500 | PowerShares Senior Loan Portfolio @ $22.00 Put Option | January 20, 2017 | 240,166 | 275,087 |
| 500 | Seair Inc. @ $25.00 Call Option | January 20, 2017 | 243,295 | 121,799 |
| 500 | Seair Inc. @ $30.00 Call Option | January 15, 2016 | 132,119 | 692 |
| Net value | | | $ 665,505 | $ 402,578 |

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

## 1. Reporting entity:

The McElvaine Investment Trust (the "Trust") is a unit trust governed by the laws of British Columbia, which was formed pursuant to a Declaration of Trust dated September 27, 1996, as amended May 15, 2002, January 1, 2008 and April 23, 2012 (collectively, the "Trust Agreement"), between McElvaine Investment Management Ltd. as manager and the Trust. Prior to April 23, 2012, RBC Dexia Investor Services Trust ("RBC Dexia") acted as trustee of the Trust pursuant to the Trust Agreement. Effective April 23, 2012, McElvaine Investment Management Ltd. was appointed as the replacement trustee of the Trust following the resignation of RBC Dexia. The Trust is managed by McElvaine Investment Management Ltd. (the "Manager"), which also provides investment counseling services. The address of the Trust's registered office is at Suite 219, 2187 Oak Bay Avenue, Victoria, British Columbia.

The Trust is an open-ended investment Trust with a fundamental investment objective to achieve long-term capital appreciation by acquiring primarily securities that are trading below their intrinsic value. The Manager intends to invest the Trust's assets primarily in common shares of publically-traded companies. However, the Manager may make any type of investment that is believed to be consistent with the Trust's investment objective. There will be periods of time where a substantial portion of the Trust's assets will be held in the form of cash, short-term money market instruments or other fixed income instruments.

## 2. Basis of preparation:

(a) Statement of compliance:

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB"). The financial statements were authorized for issue by the Manager on February 17, 2016.

(b) Basis of measurement:

The financial statements have been prepared on a historical cost basis except for investments and derivatives, which are measured at fair value.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgment:

The preparation of financial statements in conformity with IFRS requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected.

**3. Significant accounting policies:**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Cash:

Cash is comprised of cash on deposit with financial institutions.

(b) Financial instruments:

(*i*) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: held-for-trading, fair value through profit or loss ("FVTPL"), available-for-sale, loans and receivables, assets held-to-maturity, and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as held-for-trading or fair value through profit or loss in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities held-for-trading or at fair value through profit or loss are recognized initially on the trade date, which is the date on which the Trust becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Trust derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of net assets only when the Trust has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Trust has not classified any of its financial instruments as available-for-sale or assets held-to-maturity.

(*ii*) Held-for-trading and fair value through profit and loss:

Financial instruments classified as held-for-trading or FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statement of comprehensive income in the period in which they occur. The Trust's derivative financial assets and derivative financial liabilities are classified as held-for-trading. The Trust's investments in securities are designated as FVTPL.

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

(b) Financial instruments (continued):

(*ii*) Held-for-trading and fair value through profit and loss (continued):

Fair value is the price that would be received to sell an asset or paid to transfer a liability, in an orderly transaction, between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Trust uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Trust's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market, including derivative instruments, is determined using valuation techniques. Valuation techniques also include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

(*iii*) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of loans and receivables is at amortized cost, less any impairment losses. The Trust classifies cash and interest and dividends receivable as loans and receivables.

(*iv*) Other financial liabilities:

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost. The Trust's other financial liabilities are comprised of subscriptions received in advance, payable for investments purchased and other accrued liabilities.

(c) Redeemable units:

The Trust classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The redeemable units, which are classified as financial liabilities at FVTPL and measured at redemption amount, provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Trust's valuation policies at each redemption date. Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of the Manager.

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

(d) Foreign exchange:

The financial statements of the Trust are denominated in Canadian dollars. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the statement of comprehensive income.

(e) Income recognition:

Interest income shown on the statement of comprehensive income represents interest received by the Trust accounted for on an accrual basis. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

(f) Income taxes:

The Trust qualifies as a unit trust under the Income Tax Act (Canada). All of the Trust's net income for tax purposes and net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Trust. As a result, the Trust does not record income taxes.

(g) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for year ended December 31, 2015, and have not been applied in preparing these financial statements. None of these will have a significant effect on the financial statement of the Trust, with the possible exception of IFRS 9, *Financial Instruments*.

IFRS 9 deals with recognition, derecognition, classification and measurement of financial statements and its requirements represent a significant change from the existing requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

The standard is effective for fiscal years beginning January 1, 2018, but early adoption is permitted. The Trust's Manager is currently in the process of evaluating the potential effect of this standard. The standard is not expected to have a significant impact on the financial statements since the Trust's financial assets are currently measured at fair value or amortized cost.

## 4. Net gain (loss) from financial instruments at fair value through profit or loss:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Net gain (loss) from financial instruments held for trading: | | | | |
| Derivative financial instruments | $ | (583,923) | $ | 252,904 |
| Net gain (loss) from financial assets designated as fair value through profit or loss: | | | | |
| Investments | | (3,335,482) | | 2,035,923 |
| | $ | (3,919,405) | $ | 1,783,019 |
| Net gain (loss) from financial instruments at fair value through profit or loss: | | | | |
| Realized | $ | (644,359) | $ | 588,400 |
| Unrealized | | (3,275,046) | | 1,194,619 |
| | $ | (3,919,405) | $ | 1,783,019 |

## 5. Related party transactions:

*Management fees:*

The Trust pays a monthly fee to the Manager for management and administration services rendered, based on the net asset value ("NAV") of the respective series (prior to the calculation of any performance incentive fees, described below, on the last business day of the preceding month). The monthly fee payable to the Manager is based upon the following rates:

| | |
|---|---|
| Series A | 1/12 of 2.0% per annum |
| Series B | 1/12 of 1.0% per annum |
| Series X | 1/12 of 1.2% per annum |

There are no management fees charged on Series C and Series F units.

*Performance fees:*

The Trust will pay the Manager a performance incentive fee for its services as a portfolio advisor at a rate of 25% for Series C and 20% for Series A, B, F, and X (the "Incentive Fee Rate") on the following basis:

(*i*) For Series A, payable annually on any increase in the Series A NAV during the fiscal year (adjusted for contributions and redemptions of Series A units and for any shortfall, as described below) in excess of a 12% return (the "Series A Hurdle Rate").

(*ii*) For Series B, C, and F, payable annually on any increase in the respective series NAV during the fiscal year (adjusted for contributions and redemptions of the respective series units and for any shortfall, as described below) in excess of a 6% return (the "Series B, C and F Hurdle Rate").

**5. Related party transactions (continued):**

*Performance fees (continued):*

($iii$) If in any fiscal year the increase in a series NAV is less than the respective hurdle rate (a shortfall), the difference will be carried forward to the next fiscal year and, after adjustment for series redemptions, deducted from any increase in the NAV in the performance incentive fee calculation of the respective series of the Trust for that year.

($iv$) For Series X, payable quarterly on any increase in the Series X NAV during a calendar quarter (adjusted for redemptions and distributions on Series X units), but no fee is payable unless the Series X NAV at the end of the calendar quarter is greater than the highest quarter-end Series X NAV previously achieved by the Trust.

The performance incentive fee, if any, is estimated and accrued monthly during a fiscal year for the purpose of calculating the net assets per series and per unit at the end of each month, but is paid to the Investment Counsel annually within one month of the fiscal year-end of the Trust in either cash or units, at the discretion of the Investment Counsel.

The adjusted shortfall carried forward in respect of each of Series A, B, C and F of the Trust at December 31, 2015 December 31, 2014, as applicable, was as follows:

| | 2015 | 2014 |
|---|---|---|
| Series A | $ 178 | $ - |
| Series B | 18,603,404 | 14,106,067 |
| Series C | - | - |
| Series F | - | 39 |

No performance fee was paid in respect of Series X of the Trust during the years ended December 31, 2015 and 2014 as the Series X NAV did not exceed the highest quarter-end Series X NAV previously achieved by the Trust.

*Unit holdings:*

At December 31, 2015, 29,053 Series B and 1,000 Series C redeemable units (2014 - 29,053 Series B and nil Series C redeemable units) were held by directors and close family members of the Manager.

At December 31, 2015, 100 Series A and 20,000 Series B redeemable units (2014 - 100 Series A and 20,000 Series B redeemable units) were held by the Manager and its parent company.

**5. Related party transactions (continued):**

*Investments:*

Rainmaker Entertainment Inc. and Glacier Media Inc. are related to the Trust by virtue of having directors in common. During the years ended December 31, 2015 and 2014 the following transactions occurred between the Trust and these related parties:

| | 2015 | 2014 |
|---|---|---|
| Rainmaker Entertainment Inc.: | | |
| Interest and dividend receivable | $ 548 | $ 50,236 |
| Investments, as at December 31 | 3,475,000 | 3,092,000 |
| Proceeds from sale of investments | - | - |
| Purchase of investments | - | (300,000) |
| Interest income | 200,000 | 195,551 |
| Changes in fair value of investments: | | |
| Net realized gain (loss) | - | - |
| Net change in unrealized appreciation (depreciation) | 383,000 | 288,000 |
| Glacier Media Inc.: | | |
| Interest and dividend receivable | - | 56,000 |
| Investments, as at December 31 | 2,960,000 | 4,214,000 |
| Proceeds from sale of investments | 636,000 | - |
| Purchase of investments | (1,609,000) | (1,340,050) |
| Dividend income | 112,000 | 223,000 |
| Changes in fair value of investments: | | |
| Net realized gain (loss) | (535,570) | - |
| Net change in unrealized appreciation (depreciation) | (1,691,430) | 443,950 |

**6. Withholding tax expense:**

Certain dividend and interest income received by the Trust is subject to withholding tax imposed in the country of origin. During the period, the average effective withholding tax rate was 0.47% (2014 - 0.65%).

**7. Redeemable units:**

Pursuant to the Trust Agreement, the Trust is authorized to issue an unlimited number of units in four distinct series of units and prior to February 26, 2009 offered a fourth series of unit. Each series of unit is described further below:

- Series A units are available to all investors. Dealers may charge a commission or fee of up to 2% of the total purchase of Series A units. These units may be redesigned at the discretion of the unitholder as Series F units.
- Series B units are available only from the Manager. These units may qualify for redesignation by the unitholder as Series A or F units.
- Series C units are available only from the Manager. These units may qualify for redesignation by the unitholder as Series A, B or F units.

## 7. Redeemable units (continued):

- Series F units are available to investors having fee-based accounts with a qualifying dealer and to qualifying groups of investors. These units may qualify for redesignation by the unitholder as Series A units.
- Prior to February 26, 2009, Series X units were designated as "Series A units". As of their redesignation date, Series X units are no longer offered for sale to the public.

The unit transactions for the Trust during the year ended December 31 are as follows:

| December 31, 2015 | Outstanding redeemable units, beginning of year | Redeemable units issued | Redeemable units redeemed | Redeemable units issued on reinvestment of distributions | Consolidation of redeemable units | Outstanding redeemable units, end of year |
|---|---|---|---|---|---|---|
| Series A | 100 | - | - | - | - | 100 |
| Series B | 1,645,386 | 2,755 | (45,762) | (32,455) | - | 1,569,924 |
| Series C | - | 1,000 | - | - | - | 1,000 |
| Series F | 9,175 | - | (2,074) | 64,021 | (1,227) | 68,895 |
| Series X | 56,058 | - | (30,510) | - | - | 25,548 |
| | 1,710,719 | 3,755 | (78,346) | 31,566 | (1,227) | 1,665,467 |

| December 31, 2014 | Outstanding redeemable units, beginning of year | Redeemable units issued | Redeemable units redeemed | Redeemable units issued on reinvestment of distributions | Consolidation of redeemable units | Outstanding redeemable units, end of year |
|---|---|---|---|---|---|---|
| Series A | 3,290 | - | (3,190) | 1 | (1) | 100 |
| Series B | 1,746,246 | 16,736 | (117,596) | 11,582 | (11,582) | 1,645,386 |
| Series F | 9,175 | - | - | 65 | (65) | 9,175 |
| Series X | 77,045 | - | (20,987) | 395 | (395) | 56,058 |
| | 1,835,756 | 16,736 | (141,773) | 12,043 | (12,043) | 1,710,719 |

## 8. Capital management:

The redeemable units issued by the Trust represent the capital of the Trust. The Trust is not subject to any internally or externally imposed restrictions on its capital. The Trust's objectives in managing the redeemable units are to ensure a stable base to maximize returns to all investors, and to manage liquidity risk arising from redemptions.

**9. Financial risk management:**

(a) Risk management framework:

The Trust may be exposed to a variety of financial risks. The Trust's exposures to financial risks are concentrated in its investment holdings, including derivative instruments. The Schedule of Investment Portfolio groups securities by asset type and geographic region. The Manager manages the potential effects of these financial risks on the Trust's performance by overseeing and regularly monitoring the Trust's position and market events, and diversifies the investment portfolio within the constraints of the investment guidelines. The fundamental investment objective of the Trust is to provide long-term capital appreciation by acquiring primarily securities that are trading below their intrinsic value.

(b) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust, resulting in a financial loss to the Trust. It arises principally from debt securities held, and also from derivative financial assets, cash, and other receivables due to the Trust. The carrying value of these financial instruments as recorded in the statements of financial position reflects the Trust's maximum exposure to credit risk.

Credit risk is managed by the Manager through a careful selection of securities and diversification of the Trust's portfolio. The Manager monitors the Trust's overall market positions on a daily basis and investment positions are maintained within an established range.

As at December 31, 2015 and December 31, 2014, the Trust was exposed to credit risk through its investment in Rainmaker Entertainment Inc. debentures, which are not rated. As of December 31, 2015, this investment represented 9.6% (December 31, 2014 - 7.7%) of the net assets of the Trust. In the Manager's opinion, the Trust does not have significant exposure to credit risk.

(c) Liquidity risk:

Liquidity risk is the risk that the Trust will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Trust's policy and the Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the Trust's reputation.

The Trust's prospectus provides for the monthly subscription and redemption of units and it is therefore exposed to the liquidity risk of meeting unitholder redemptions at each redemption date.

The Trust primarily invests in investments in listed securities that are considered to be readily realizable because they are traded on major Canadian and American stock exchanges. In addition, the Trust retains sufficient cash and deposit positions to maintain liquidity. The Trust may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid.

**9. Financial risk management (continued):**

(c) Liquidity risk (continued):

The Trust's non-derivative liabilities are generally expected to be due and paid within 90 days, with the exception of net assets attributable to holders of redeemable units. Redeemable units are redeemable on demand at the holder's option, however does not represent significant liquidity risk as holders of these instruments typically retain them for the medium to long term.

(d) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Trust's income or the fair value of its holdings of financial instruments.

(*i*) 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. The Trust's primary interest rate risk relates to the investment of cash and deposits. From time to time, the Trust may also hold convertible debt securities of portfolio investees that the Trust will expect to be converted into equity investments. On this basis, the fair value of these investments is derived primarily from the fair value of the underlying equity of the portfolio investee. As at December 31, 2015, the Trust was exposed to interest rate risk through its investment in Rainmaker Entertainment Inc. debentures, which represented 9.6% (December 31, 2014 - 7.7%) of the net assets of the Trust. In the Manager's opinion, the Trust does not have significant exposure to interest rate risk.

(*ii*) Currency risk:

Currency risk is the risk that the value of financial instruments denominated in currencies other than the functional currency of the Trust will fluctuate due to changes in foreign exchange rates.

The Trust's currency risk is managed on a daily basis by the Manager in accordance with the policies and procedures in place. The Trust may use foreign currency contracts to hedge some foreign currency exposure and engage in the buying and selling of currencies through forward contracts in order to achieve the desired currency exposure. At the reporting date, the carrying value of the Trust's net financial assets and financial liabilities held in individual foreign currencies expressed in Canadian dollars and as a percentage of its net assets were as follows.

| **December 31, 2015** | Investments | Cash | Net other assets | Derivatives | Total |
|---|---|---|---|---|---|
| Canadian dollar | $ 18,585,385 | $ 5,721,430 | $ (127,987) | $ 7,524,803 | $ 31,703,631 |
| US dollar | 3,828,720 | 2,132 | - | (3,269,435) | 561,417 |
| Euro | 2,369,628 | - | - | (3,007,190) | (637,562) |
| British pound | 500,791 | - | - | (1,019,790) | (518,999) |
| | $ 25,284,524 | $ 5,723,562 | $ (127,987) | $ 228,388 | $ 31,108,487 |

**9. Financial risk management (continued):**

(d) Market risk (continued):

(*ii*) Currency risk (continued):

| **December 31, 2014** | Investments | Cash | Net other assets | Derivatives | Total |
|---|---|---|---|---|---|
| Canadian dollar | $ 20,235,864 | $ 3,086,981 | $ 36,181 | $ 3,563,775 | $ 26,922,801 |
| US dollar | 4,948,956 | 2,765,483 | - | 82,946 | 7,797,385 |
| Euro | 3,386,440 | - | - | (3,520,601) | (134,161) |
| British pound | 1,129,183 | - | - | - | 1,129,183 |
| | $ 29,700,443 | $ 5,852,464 | $ 36,181 | $ 126,120 | $ 35,715,208 |

As at December 31, 2015 and December 31, 2014, had the Canadian dollar strengthened or weakened by 5% in relation to all foreign currencies, with all other factors remaining constant, net assets would have increased or decreased by approximately $29,757 (2014 - increased or decreased by approximately $439,620). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

(*iii*) Other price risk:

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market.

The Manager manages price risk on a daily basis. The Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy of the Trust. Except for written options and securities sold short, the maximum risk resulting from financial instruments is equivalent to their fair values as set forth in the Trust's statement of financial position. Possible losses from written options and securities sold short can be unlimited.

The geographical breakdown of securities is disclosed in the Trust's Schedule of Investment Portfolio.

As at December 31, 2015 and December 31, 2014, had the respective benchmark of the Trust increased or decreased by 10%, with all other variables held constant, net assets attributable to redeemable units would have increased or decreased, respectively by approximately $2.6 million (2014 - $2.7 million) or 8.3%% (2014 - 7.6%) of net assets attributable to redeemable units.

**10. Fair value of financial instruments:**

(a) Valuation models:

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Trust determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Trust measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1*:* inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2*:* inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3*:* inputs that are unobservable.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Trust uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as forward contracts and options that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as forward contracts. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Trust uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

**10. Fair value of financial instruments (continued):**

(a) Valuation models (continued):

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Trust believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Trust and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa, such as interest rate swaps, fair values include adjustment for both own credit risk and counterparty credit risk.

Model inputs and values are calibrated against historical data and published forecasts and, when possible, against current or recent observed transactions and broker quotes. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and management judgment is required to select the most appropriate point in the range.

(b) Fair value hierarchy - financial instruments measured at fair value:

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

All fair value measurements below are recurring.

| **2015** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equities | $ 22,284,524 | $ - | $ - | $ 22,284,524 |
| Bonds | - | 3,000,000 | - | 3,000,000 |
| Derivatives | - | 228,388 | - | 228,388 |
| | $ 22,284,524 | $ 3,228,388 | $ - | $ 25,512,912 |

| **2014** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equities | $ 26,950,443 | $ - | $ - | $ 26,950,443 |
| Bonds | - | 2,750,000 | - | 2,750,000 |
| Derivatives | - | 126,120 | - | 126,120 |
| | $ 26,950,443 | $ 2,876,120 | $ - | $ 29,826,563 |

The carrying amount of the Trust's net assets attributable to redeemable units also approximates fair value as they are measured at the redemption amount and are classified as Level 2 in the fair value hierarchy.

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2015 and 2014.

**10. Fair value of financial instruments (continued):**

(b) Fair value hierarchy - financial instruments measured at fair value (continued):

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

| **2014** | | Bonds |
|---|---|---|
| Balance, beginning of the year | $ | 2,200,000 |
| Total gains or losses recognized in profit or loss | | - |
| Purchases | | 300,000 |
| Sales | | - |
| Transfers into Level 3 | | - |
| Transfers out of Level 3 | | (2,500,000) |
| Balance, end of year | $ | - |
| Total unrealized gains or losses for the period included in profit or loss relating to financial assets and liabilities held at the reporting date | $ | - |

The Fund did not hold any Level 3 investments in 2015.

(c) Financial instruments not measured at fair value:

The carrying value of cash, interest and dividends receivable, subscriptions received in advance, payable for investments purchased and other accrued liabilities, approximates their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.

**11. Income taxes:**

As at December 31, 2015, the Trust had net capital loss carry forwards of approximately $773,336 (2014 - $245,198) available for utilization against capital gains in future years. Such net capital losses are available to be carried forward indefinitely. The Trust does not have any non-capital losses to carry forward.