

Financial Statements of

**AVENTINE CANADIAN  
EQUITY FUND**

Year ended December 31, 2015



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Aventine Canadian Equity Fund

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

### *The Manager's Responsibility for the Financial Statements*

The Manager 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 the Manager 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 the Manager 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 Aventine Canadian Equity Fund 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*

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Chartered Professional Accountants

March 30, 2016  
Vancouver, Canada

# AVENTINE CANADIAN EQUITY FUND

Statement of Financial Position

December 31, 2015, with comparative information for 2014

	Notes	2015	2014
<b>Assets</b>			
Cash		\$ 4,243,452	\$ 79,524
Dividends receivable		25,770	21,048
Subscriptions receivable		218,091	632,500
Investments		16,695,506	12,563,093
		21,182,819	13,296,165
<b>Liabilities</b>			
Accrued liabilities		-	39,893
Management fees payable	4	16,450	9,576
Performance fees payable	4	14,246	433
Dividends payable		450	-
Redemptions payable		149,188	128,428
Securities sold short		607,130	-
		787,464	178,330
<b>Net assets</b> attributable to holders of redeemable units		\$ 20,395,355	\$ 13,117,835
Represented by:			
Class A		\$ 223,393	\$ 106
Class F		4,442,670	2,880,977
Class I		12,552,909	8,362,532
Class O		3,176,383	1,874,220
		\$ 20,395,355	\$ 13,117,835
Net assets attributable to holders of redeemable units per unit per class:			
Class A		\$ 118.26	\$ 105.69
Class F		119.76	105.62
Class I		124.17	107.64
Class O		122.21	106.16

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

Approved on behalf of the Manger:

"Andrew Shortreid" Director "James Telfser" Director

# AVENTINE CANADIAN EQUITY FUND

## Statement of Comprehensive Income

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

	Notes	2015	2014
Investment income:			
Dividend income		\$ 189,497	\$ 114,371
Foreign exchange gain		134,160	6,226
Interest income		12,152	8,145
Change in fair value of investments:			
Net realized gain (loss)		927,630	(164,284)
Change in unrealized appreciation		1,322,305	737,058
<b>Total revenue</b>		<b>2,585,744</b>	<b>701,516</b>
Expenses:			
Commission expense		81,328	63,870
Performance fees	4	69,310	12,634
Operating expenses		62,054	57,976
Management fees	4	53,099	20,570
GST/HST expense		16,898	9,869
Bank charges and interest		16,004	6,073
Custodial fees		5,060	-
Dividend expense		4,956	2,827
Withholding taxes	5	-	615
<b>Total operating expenses</b>		<b>308,709</b>	<b>174,434</b>
Increase in net assets attributable to holders of redeemable units		2,277,035	527,082
Distributions to holders of redeemable units:			
From net realized gains		712,096	-
Increase in net assets attributable to holders of redeemable units		\$ 1,564,939	\$ 527,082
Increase in net assets attributable to holders of redeemable units:			
Class A		\$ 13,059	\$ 6
Class F		265,877	63,674
Class I		1,036,814	364,282
Class O		249,189	99,120
		\$ 1,564,939	\$ 527,082
Increase in net assets attributable to holders of redeemable units per unit per class:			
Class A		\$ 12.07	\$ 5.69
Class F		7.99	2.54
Class I		11.43	4.86
Class O		9.25	6.65

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

# AVENTINE CANADIAN EQUITY FUND

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

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

<b>Class A</b>	2015	2014
Balance, beginning of year	\$ 106	\$ -
Increase in net assets attributable to holders of redeemable units	13,059	6
Redeemable unit transactions:		
Proceeds from redeemable units issued	205,000	100
Reinvested distributions	5,228	-
Amounts paid on redemption of redeemable units	-	-
Net increase from redeemable unit transactions	210,228	100
Balance, end of year	\$ 223,393	\$ 106
<b>Class F</b>	2015	2014
Balance, beginning of year	\$ 2,880,977	\$ -
Increase in net assets attributable to holders of redeemable units	265,877	63,674
Redeemable unit transactions:		
Proceeds from redeemable units issued	1,525,533	3,035,619
Reinvested distributions	152,587	-
Amounts paid on redemption of redeemable units	(382,304)	(218,316)
Net increase from redeemable unit transactions	1,295,816	2,817,303
Balance, end of year	\$ 4,442,670	\$ 2,880,977
<b>Class I</b>	2015	2014
Balance, beginning of year	\$ 8,362,532	\$ -
Increase in net assets attributable to holders of redeemable units	1,036,814	364,282
Redeemable unit transactions:		
Proceeds from redeemable units issued	2,952,233	8,540,018
Reinvested distributions	431,338	-
Amounts paid on redemption of redeemable units	(230,008)	(541,768)
Net increase from redeemable unit transactions	3,153,563	7,998,250
Balance, end of year	\$ 12,552,909	\$ 8,362,532
<b>Class O</b>	2015	2014
Balance, beginning of year	\$ 1,874,220	\$ -
Increase in net assets attributable to holders of redeemable units	249,189	99,120
Redeemable unit transactions:		
Proceeds from redeemable units issued	1,234,740	1,775,100
Reinvested distributions	122,943	-
Amounts paid on redemption of redeemable units	(304,709)	-
Net increase from redeemable unit transactions	1,052,974	1,775,100
Balance, end of year	\$ 3,176,383	\$ 1,874,220

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

# AVENTINE CANADIAN EQUITY FUND

## Statement of Cash Flows

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

	2015	2014
Cash provided by (used in):		
Operating activities:		
Increase in net assets attributable to holders of redeemable units	\$ 1,564,939	\$ 527,082
Adjustments for:		
Dividend income	(189,497)	(114,371)
Foreign exchange gain	(134,160)	(6,226)
Interest income	(12,152)	(8,145)
Net realized gain (loss) from investments	(927,630)	164,284
Net change in unrealized appreciation from investments	(1,322,305)	(737,058)
Withholding taxes	-	615
Proceeds from sale of investments	24,469,114	8,566,278
Purchase of investments	(25,744,462)	(20,556,597)
Change in subscriptions receivable	414,409	(632,500)
Change in accrued liabilities	(39,893)	39,893
Change in management fees payable	6,874	9,576
Change in performance fees payable	13,813	433
Change in dividends payable	450	-
Change in redemptions payable	20,760	128,428
Dividends received	184,775	92,708
Interest received	12,152	8,145
Non-cash distributions to holders of redeemable units	712,096	-
	(970,717)	(12,517,455)
Financing activities:		
Proceeds from issue of redeemable units	5,917,506	13,350,837
Payments on redemption of redeemable units	(917,021)	(760,084)
	5,000,485	12,590,753
Net increase in cash	4,029,768	73,298
Cash, beginning of year	79,524	-
Effect on exchange rate fluctuation on cash	134,160	6,226
Cash, end of year	\$ 4,243,452	\$ 79,524

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

# AVENTINE CANADIAN EQUITY FUND

Schedule of Investment Portfolio

Year ended December 31, 2015

	Number of shares	Cost	Fair value
Canadian equities:			
Aecon Group Inc.	30,000	\$ 425,815	\$ 461,700
Brookfield Asset Management Inc.	15,690	594,853	684,869
CCL Industries Inc.	2,900	300,780	650,673
CGI Group Inc.	13,200	668,982	731,280
Clearwater Seafoods Income Fund	100,100	1,047,905	1,200,199
Colliers International Group Inc.	9,500	428,424	586,435
Concordia Healthcare Corp.	26,075	1,155,949	1,474,281
Cott Corp.	49,800	711,800	758,952
Goeasy Ltd.	66,100	1,254,398	1,252,595
Element Financial Corp.	32,000	534,868	534,400
Enghouse Systems Ltd.	4,700	154,878	349,398
FirstService Corp.	10,500	243,776	586,950
Hudson's Bay Co.	45,130	1,054,471	816,853
International Forest Products Ltd.	59,000	1,028,204	828,360
Linamar Corp.	7,800	481,499	582,894
New Flyer Industries Inc.	33,000	464,480	934,560
Sandvine Corp.	262,600	819,280	929,604
Tricon Capital Group Inc.	81,900	794,985	742,014
Winpak Ltd.	20,000	821,695	920,312
ZCL Composites Inc.	32,200	225,425	232,806
Total Canadian equities		13,212,467	15,259,135
Canadian equities - Short:			
Badger Daylighting	(20,000)	(435,614)	(488,400)
Just Energy Group Inc.	(10,000)	(94,000)	(98,800)
Total Canadian equities - Short		(529,614)	(587,200)
Foreign equities - Long:			
AerCap Holdings NV	15,600	854,400	931,842
Proshares Ultrapro Short S&P 500.	9,500	393,051	416,923
Total foreign equities - Long		1,247,451	1,348,765



# AVENTINE CANADIAN EQUITY FUND

Schedule of Investment Portfolio (continued)

Year ended December 31, 2015

	Number of shares	Cost	Fair value
Other - Long:			
SPY US 03/18/16 P192	10,000	78,067	41,658
SPY US 03/18/16 P204	5,000	39,448	45,948
Total Other - Long		117,515	87,606
Other - Short:			
SPY US 03/18/16 P190	(5,000)	(18,806)	(19,930)
Total Other - Short		(18,806)	(19,930)
Total investment portfolio		\$ 14,029,013	\$ 16,088,376
Other Net Assets Attributable to Holders of Redeemable Units			4,306,979
Net assets Attributable to Holders of Redeemable Units			\$ 20,395,355

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

# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

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## 1. Reporting entity:

Aventine Canadian Equity Fund (the "Fund") is an open ended investment trust which was formed on March 31, 2014 under the laws of Ontario. The Fund is governed by the Amended and Restated Master Declaration of Trust, dated March 31, 2014. Aventine Management Group Inc. (the "Manager") has received exemptive relief to act as both the trustee and the manager of the Fund. The address of the Fund's registered office is at 2 Floor Street West, Suite 3400, Toronto, Ontario.

Pursuant to Section 2.11 of National Instrument 81-106 – *Investment Fund Continuous Disclosure*, the Manager is relying on a filing exemption available to mutual funds who are not reporting issuers and will not be filing financial statements with respect to the Fund with the Ontario Securities Commission

The Fund's primary objective is to provide long-term capital growth through the selection and management of a concentrated basket of primarily Canadian equity securities.

## 2. Basis of preparation:

### (a) Statement of compliance:

The financial statements of the Fund have been prepared in compliance with International Financial Reporting Standards ("IFRS").

The financial statements were authorized for issue by the Manager on March 30, 2016.

### (b) Basis of measurement:

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

### (c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Fund'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.

# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

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### 3. Significant accounting policies:

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

(a) 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 Fund 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 Fund 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 Fund 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 Fund 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 Fund's derivative financial assets and derivative financial liabilities are classified as held-for-trading. The Fund's investments in securities and its securities sold short are designated as FVTPL.

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 Fund 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 Fund'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.

# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

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

(a) Financial instruments (continued):

(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. Interest income is recognized by applying the effective interest rate. The Fund classifies cash, dividends receivables, and subscriptions 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 Fund's other financial liabilities are comprised of accrued liabilities, management fees payable, performance fees payable, dividends payable, and redemptions payable.

(b) Redeemable units:

The Fund 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 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 Fund'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.

(c) 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 redeemable units by the total number of redeemable units of that particular class outstanding at the end of the period.

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

The increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units by the weighted average number of units outstanding during the year.

(e) Foreign exchange:

The financial statements of the Fund 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.

# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

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

(f) Income recognition:

Interest income is recognized 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.

(g) Income taxes:

The Fund qualifies as a unit trust under the Income Tax Act (Canada). All of the Fund'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 Fund. As a result, the Fund does not record income taxes.

(h) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for period 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 Fund, 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.

This standard becomes effective January 1, 2018, but early adoption is permitted. The Fund'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 Fund's financial assets are currently measured at fair value or amortized cost.

# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

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## 4. Related party transactions:

### (a) Management fees:

The Manager provides investment and administrative services to the Fund. In consideration for these services the Manager receives the following fees:

Class A - 1/12 of 2.0% (2.0% per annum) of the net asset value ("NAV") of the Class A units of the Fund on each Valuation Day.

Class F - 1/12 of 1.0% (1.0% per annum) of the NAV of the Class F units of the Fund on each Valuation Day.

Class I - No management fee is payable by the Fund in respect of Class I units.

Class O - 1/12 of 0.5% (0.5% per annum) of the NAV of the Class O units of the Fund on each Valuation Day.

### (b) Performance fees:

The Manager will also be eligible to receive a performance fee in respect of the Class A units, Class F units and Class O units of the Fund. The performance fee in respect of the units will be calculated and accrued as a liability of the Fund on the last business day of each month. Any accrued performance fee will become crystallized and payable semi-annually on the last business day of June and December in each year and paid to the Manager from the net assets of the Fund.

In order for the Manager to be eligible to receive a performance fee from the Fund, the NAV per unit for a class series of units on the last business day of June or December in a year must exceed that class series of units' "high-water mark", adjusted for any unit distributions, by 3.50% for the semi-annual period or pro-rated portion thereof if the series was not outstanding on the last such performance fee evaluation date. The highest historical NAV per unit for each class series of units on the last business day of June or December in any year establishes the high-water mark for each class series of units.

If the performance fee target is met, the Manager will be eligible to receive a performance fee equal to 20% for Class A and F and 10% for Class O of the amount by which the then current class series NAV per unit exceeds the prior all time high class series NAV per unit plus the semi-annual performance hurdle threshold, after any adjustments for unit distributions. The performance fee will be payable by the Fund within ten business days of the quarter-end. No performance fee is payable by the Fund in respect of Class I units.

### (c) Unit holdings:

Parties related to the Manager, its officers and directors invest in units of the Fund from time to time in the normal course of business. All transactions with the Manager are measured at the net asset value on the respective transaction date. As at December 31, 2015, 40,135 Class I (2014 - 27,247), 6,861 Class F (2014 - 5,650), 1 Class A (2014 - 1), and 1 Class O (2014 - 1) units of the Fund were owned by parties related to the Manager, or its officers and directors.

# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

## 5. Withholding tax expense:

Certain dividend and interest income received by the Fund is subject to withholding tax imposed in the country of origin. During 2015, the average withholding tax rate was nil (2014 - 26.4%).

## 6. Expenses absorbed by Manager:

The Fund is responsible for the payment of all fees and expenses relating to its operation, including management fees, trailer fees, commission expenses, performance fees, taxes and bank charges and interest. The Manager has agreed to absorb certain ongoing operating fees and expenses incurred on behalf of the Fund as specified in the Offering Memorandum, in which case such amounts are shown as a deduction from expenses in the statement of comprehensive income. For the period to December 31, 2015, the Manager absorbed no expenses (2014 - nil).

## 7. Redeemable units:

The Fund's capital consists of its issued and outstanding units. The Fund is authorized to issue an unlimited number of units in one or more classes. The Fund currently has four classes of units: Class A, Class F units, Class I units, and Class O units (2014 – four classes of units: Class A, Class F, Class I, and Class O). Class A units are available to investors who purchase units through authorized brokers or dealers. Class F units are available to investors who have managed or fee-based accounts with their dealer. Class I units are available to investors who are managed account clients of the Manager whose aggregate account value lies above a certain asset threshold or other investors in the discretion of the Manager. Class O units are available to institutional investors or other investors in the discretion of the Manager. Units are redeemable at the option of the holder on a monthly basis, subject to adequate notice being received by the Manager.

The unit transactions for the Fund during the period ended December 31, 2015 are as follows:

	Outstanding redeemable units, beginning of year	Redeemable units issued	Redeemable units issued on reinvestment of distributions	Consolidation of units	Redeemable units redeemed	Outstanding redeemable units, end of year
<b>2015</b>						
Class A	1	1,888	44	(44)	-	1,889
Class F	27,276	13,344	1,274	(1,274)	(3,524)	37,096
Class I	77,687	25,439	3,474	(3,474)	(2,031)	101,095
Class O	17,654	11,193	1,006	(1,006)	(2,856)	25,991
	122,618	51,864	5,798	(5,798)	(8,411)	166,071

	Outstanding redeemable units, beginning of year	Redeemable units issued	Redeemable units issued on reinvestment of distributions	Consolidation of units	Redeemable units redeemed	Outstanding redeemable units, end of year
<b>2014</b>						
Class A	-	1	-	-	-	1
Class F	-	29,386	-	-	(2,110)	27,276
Class I	-	79,435	-	-	(1,748)	77,687
Class O	-	17,654	-	-	-	17,654
	-	126,476	-	-	(3,858)	122,618

# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

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## 8. Capital management:

The redeemable units issued by the Fund represent the capital of the Fund. The Fund is not subject to any internally or externally imposed restrictions on its capital. The Fund'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 Fund maintains positions in a variety of investments in accordance with their investment management strategies. The investment objective of the Fund is to generate a long-term capital growth in excess of the major North American equity indexes.

The Fund's investment activities expose it to a variety of financial risks. The Fund's exposures to financial risks are concentrated in its investment holdings. Significant risks that are relevant to the Fund are discussed below. The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by daily monitoring of the Fund's positions and market events, by diversifying the investment portfolio and periodically may use derivatives to economically hedge certain risk exposures.

### (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 Fund, resulting in a financial loss to the Fund. It arises principally from debt securities held. The carrying value of these financial instruments, as recorded in the Fund's schedule of investments portfolio reflects the respective Fund's maximum exposure to credit risk.

As the Fund's investments at December 31, 2015 and 2014, are primarily comprised of exchange traded equity securities, the Fund does not have significant exposure to credit risk.

### (c) Liquidity risk:

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's exposure to liquidity risk is concentrated in the monthly cash redemption of units. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed. In addition, the Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity.

The Fund's investments are considered readily realizable and highly liquid. The Fund's redeemable units are due on demand. The Fund's remaining liabilities are due within three months of the year-end of the Fund. Accordingly, the Fund's liquidity risk is considered minimal.



# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

## 9. Financial risk management (continued):

### (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 Fund's income or the fair value of its holdings of financial instruments.

#### (i) Interest rate risk:

Interest rate risk is the risk that the fair value of the Fund's interest-bearing investments will fluctuate due to changes in prevailing interest rates. The longer the term to maturity, all else being equal, the more sensitive a security is to interest rate risk. As at December 31, 2015 and 2014, the Fund does not have investments in bonds or short-term discount notes and, as a result, 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 Fund will fluctuate due to changes in foreign exchange rates. The schedule of investment portfolio identifies all investments denominated in foreign currencies. Equities in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Canadian dollar, the Fund's functional currency, in determining fair value.

Currency risk is managed by the Manager of the Fund through a careful selection of securities and diversification within each respective Fund. The Manager monitors the Fund's overall market positions and positions are maintained within established ranges. The Fund has the ability to enter into foreign currency contracts to better manage the risks associated with its foreign currency exposure.

At the reporting date, the carrying value of the Fund'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.

2015	Investments	Cash	Investments sold short	Other net assets	Total	Percentage of net assets
Canadian dollar	\$ 15,259,135	\$ 3,881,935	\$(587,200)	\$ 63,527	\$ 18,617,397	91.3%
US dollar	1,436,371	361,517	(19,930)	-	1,777,958	8.7%
	\$ 16,088,376	\$ 4,243,452	\$(607,130)	\$ 63,527	\$ 20,395,355	100.0%

2014	Investments	Cash	Investments sold short	Other net assets	Total	Percentage of net assets
Canadian dollar	\$ 11,607,948	\$ (144,418)	\$ -	\$ 475,218	\$ 11,938,748	91.0%
US dollar	955,145	223,942	-	-	1,179,087	9.0%
	\$ 12,563,093	\$ 79,524	\$ -	\$ 475,218	\$ 13,117,835	100.0%

# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

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## 9. Financial risk management (continued):

### (d) Market risk (continued):

#### (ii) Currency risk (continued):

If the exchange rate between the Canadian Dollar and the foreign currency that the Fund is exposed to increased or decreased by 1% at December 31, 2015, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$17,780 (2014 - \$11,800). 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 investments of the Fund are subject to the normal market fluctuations and the risks inherent in the equity markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities within specified limits. The Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges.

As at December 31, 2015 and 2014, if the following indexes had increased (decreased) by 5%, with all other variables held constant, this would have approximately increased (decreased) net assets as follows:

Market indexes	Change in <u>equity price</u> 2015	Effect on Fund <u>net assets</u> 2015	Change in <u>equity price</u> 2014	Effect on Fund <u>net assets</u> 2014
S&P 500 Index	+/-5%	\$ 508,250	+/-5%	\$ 388,552
S&P/TSX Composite Index	+/-5%	619,534	+/-5%	484,871

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In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

## 10. Fair value of financial instruments:

### (a) Fair value hierarchy:

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 Fund 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 Fund 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.

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 Fund uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as forward contracts 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 equity securities, 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.

### (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.

	Assets at fair value as at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Securities held long	\$ 16,695,506	\$ -	\$ -	\$ 16,695,605
Securities sold short	(607,130)	-	-	(607,130)
	\$ 16,088,376	\$ -	\$ -	\$ 16,088,376

	Assets at fair value as at December 31, 2014			
	Level 1	Level 2	Level 3	Total
Securities	\$ 12,563,093	\$ -	\$ -	\$ 12,563,093

# AVENTINE CANADIAN EQUITY FUND

Notes to Financial Statements

Year ended December 31, 2015

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

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

The carrying amount of the Fund'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 of financial assets between Level 1, Level 2 and Level 3 for the period ended December 31, 2015.

### (c) Financial instruments not measured at fair value:

The carrying value of cash, dividends receivable, subscriptions receivable, accrued liabilities, management fees payable, performance fees payable, dividends payable and redemptions payable 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:

The Fund has no net realized capital losses (2014 -\$92,000) available for utilization against net realized capital gains in future years. The Fund has no non-capital losses (2014 - \$24,000) available for utilization against net realized capital gains or non-capital gains in future years.

Net capital losses are available to be carried forward indefinitely and applied against future net realized capital gains. Non-capital losses may be carried forward up to 20 years to reduce future taxable income.