PORTLAND
INVESTMENT COUNSEL™

Portland Focused Plus Fund LP

# Financial Statements

December 31, 2013

Portland Focused Plus Fund LP

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December 31, 2013



**FINANCIAL STATEMENTS**

# PORTLAND FOCUSED PLUS FUND LP

# PARTNERSHIP INFORMATION

| | |
|---|---|
| General Partner: | Portland General Partner (Alberta) Inc. |
| Directors of the General Partner: | Michael Lee-Chin<br>James Cole<br>Michael Perkins |
| Registered Office: | c/o Borden Ladner Gervais LLP<br>1900, 520 – 3rd Avenue S.W.<br>Calgary, Alberta<br>T2P 0R3 |
| Custodian: | UBS Bank (Canada)<br>154 University Avenue, Suite 800<br>Toronto, Ontario<br>M5H 3Z4 |
| Investment fund manager and portfolio manager: | Portland Investment Counsel Inc.<br>1375 Kerns Road, Suite 100<br>Burlington, Ontario<br>L7P 4V7 |
| Administrator: | Citigroup Fund Services Canada, Inc.<br>100-5900 Hurontario Street<br>Mississauga, Ontario<br>L5R 0E8 |
| Auditor: | PricewaterhouseCoopers LLP<br>18 York Street, Suite 2600<br>Toronto, Ontario<br>M5J 0B2 |
| Members of Independent Review Committee: | David Sharpless<br>Jim O'Donnell<br>John Doma |

# Independent Auditor's Report

To the Partners of
Portland Focused Plus Fund LP (the "Partnership")

We have audited the accompanying financial statements of the Partnership, which comprise the statement of investment portfolio as at December 31, 2013, the statements of net assets as at December 31, 2013 and December 31, 2012, the statements of operations, changes in net assets and cash flow for the year ended December 31, 2013 and for the period from October 31, 2012 (commencement of operations) to December 31, 2012, and the related notes which comprise 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 the financial statements in accordance with Canadian generally accepted accounting principles, 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.

**Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an 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 the auditor's 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, the auditor considers 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 in our audits 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 Partnership as at December 31, 2013 and December 31, 2012 and the results of its operations, the changes in its net assets and its cash flow for the year ended December 31, 2013 and for the period from October 31, 2012 (commencement of operations) to December 31, 2012 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
March 18, 2014

## Statement of Investment Portfolio

as at December 31, 2013

| No. of Shares | Security Name | Average Cost | Fair Value | % of Net Assets |
|---|---|---|---|---|
| **EQUITIES** | | | | |
| **Consumer Discretionary** | | | | |
| 40,000 | DIRECTV | $ 1,956,937 | $ 2,938,262 | 23.7% |
| **Energy** | | | | |
| 210,000 | Canadian Oil Sands Limited | 4,329,754 | 4,193,700 | |
| 50,000 | Ensco PLC Class 'A' | 3,159,988 | 3,039,068 | |
| | | 7,489,742 | 7,232,768 | 58.3% |
| **Financials** | | | | |
| 54,000 | JPMorgan Chase & Company | 2,670,785 | 3,357,415 | |
| 120,000 | RioCan Real Estate Investment Trust | 2,874,456 | 2,968,800 | |
| | | 5,545,241 | 6,326,215 | 51.0% |
| **Information Technology** | | | | |
| 21,800 | International Business Machines Corporation | 4,149,171 | 4,345,534 | 35.1% |
| | Total investments | 19,141,091 | 20,842,779 | 168.1% |
| | Transaction costs | (14,963) | - | - |
| | Total investment portfolio | 19,126,128 | 20,842,779 | 168.1% |
| | Other liabilities less assets | | (8,447,215) | (68.1)% |
| | TOTAL NET ASSETS | | $ 12,395,564 | 100.0% |

## Statements of Net Assets

| | As at December 31, 2013 | As at December 31, 2012 |
|---|---|---|
| ASSETS | | |
| Investments, at fair value | $ 20,842,779 | $ 1,095,857 |
| Cash and cash equivalents | 344 | 4,013,422 |
| Accrued investment income | 14,100 | 3,960 |
| Subscriptions receivable | 50,000 | - |
| | 20,907,223 | 5,113,239 |
| LIABILITIES | | |
| Net margin loan and borrowing (note 8) | $ 7,911,642 | $ - |
| Accrued management fees | 17,811 | 3,841 |
| Accrued performance fees | 8,425 | 3,353 |
| Accrued expenses | 5,090 | 1,415 |
| Organizational expenses payable | 56,018 | 72,415 |
| Redemptions payable | 512,673 | - |
| | 8,511,659 | 81,024 |
| NET ASSETS REPRESENTING PARTNERS' EQUITY | $ 12,395,564 | $ 5,032,215 |
| NET ASSETS REPRESENTING PARTNERS' EQUITY | | |
| General Partner's Equity | $ 100 | $ 100 |
| Class A Units | 200,489 | 747,216 |
| Class B Units | 1,357,707 | 1,993,272 |
| Class BN Units | 9,473,623 | 1,993,765 |
| Class F Units | 1,363,645 | 297,862 |
| | $ 12,395,564 | $ 5,032,215 |
| NUMBER OF UNITS OUTSTANDING (note 6) | | |
| Class A Units | 3,001 | 14,969 |
| Class B Units | 20,000 | 39,611 |
| Class BN Units | 135,542 | 39,601 |
| Class F Units | 20,025 | 6,000 |
| NET ASSETS PER UNIT (note 9) | | |
| Class A Units | $ 66.81 | $ 49.92 |
| Class B Units | $ 67.89 | $ 50.32 |
| Class BN Units | $ 69.89 | $ 50.35 |
| Class F Units | $ 68.10 | $ 49.64 |

Approved on behalf of the General Partner

*"Michael Lee-Chin"*
Director

*"James Cole"*
Director

## Statements of Operations

| for the years ending December 31 | 2013 | 2012* |
|---|---|---|
| INCOME | | |
| Interest | $ 12,264 | $ 1,776 |
| Dividends | 594,420 | 7,465 |
| | 606,684 | 9,241 |
| Foreign withholding taxes | $ (22,028) | $ (526) |
| | 584,656 | 8,715 |
| EXPENSES (note 7) | | |
| Interest expense | $ 66,394 | $ - |
| General & administrative expenses | 17,953 | 21,760 |
| Audit fees | 14,480 | 12,660 |
| Legal and registration fees | 5,607 | - |
| Independent review committee fees | 5,329 | 807 |
| Management fees | 167,330 | 6,835 |
| Performance fees | 133,549 | 4,164 |
| Organization expenses | - | 74,912 |
| Total expenses | 410,642 | 121,138 |
| Less: expenses absorbed by Manager | - | (34,347) |
| Net expenses | $ 410,642 | $ 86,791 |
| NET INVESTMENT INCOME (LOSS) FOR THE PERIOD | $ 174,014 | $ (78,076) |
| NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS | | |
| Net realized gain (loss) on sales of investments | $ 1,663,613 | $ - |
| Foreign exchange gain (loss) on currencies and other net assets | (176,230) | (3,258) |
| Transaction costs | (21,282) | (1,121) |
| Net change in unrealized appreciation (depreciation) in the value of investments | 1,652,131 | 64,520 |
| NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS | 3,118,232 | 60,141 |
| INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS | $ 3,292,246 | $ (17,935) |
| INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS | | |
| Class A Units | $ 127,716 | $ (2,834) |
| Class B Units | $ 804,884 | $ (6,728) |
| Class BN Units | $ 2,127,688 | $ (6,235) |
| Class F Units | $ 231,958 | $ (2,138) |
| INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT | | |
| Class A Units | $ 19.42 | $ (0.27) |
| Class B Units | $ 20.01 | $ (0.17) |
| Class BN Units | $ 18.70 | $ (0.16) |
| Class F Units | $ 17.35 | $ (0.36) |

*From October 31, 2012 (commencement of operations) to December 31, 2012.

## Statements of Changes in Net Assets

| for the years ending December 31 | 2013 | 2012* |
|---|---|---|
| NET ASSETS - BEGINNING OF PERIOD | | |
| General Partner's Equity | $ 100 | $ - |
| Class A Units | 747,216 | - |
| Class B Units | 1,993,272 | - |
| Class BN Units | 1,993,765 | - |
| Class F Units | 297,862 | - |
| | $ 5,032,215 | $ - |
| INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS | | |
| General Partner's Equity | $ - | $ - |
| Class A Units | 127,716 | (2,834) |
| Class B Units | 804,884 | (6,728) |
| Class BN Units | 2,127,688 | (6,235) |
| Class F Units | 231,958 | (2,138) |
| | $ 3,292,246 | $ (17,935) |
| CAPITAL UNIT TRANSACTIONS (note 6): | | |
| Contribution from General Partner | $ - | $ 100 |
| Proceeds from units issued to limited partners: | | |
| Class A Units | - | 750,050 |
| Class B Units | 2,500,000 | 2,000,000 |
| Class BN Units | 8,472,998 | 2,000,000 |
| Class F Units | 1,004,545 | 300,000 |
| | $ 11,977,543 | $ 5,050,150 |
| Payments for units redeemed | | |
| General Partner's Equity | $ - | $ - |
| Class A | (674,443) | - |
| Class B | (3,940,449) | - |
| Class BN | (3,120,828) | - |
| Class F | (170,720) | - |
| | (7,906,440) | - |
| Net capital unit transactions | $ 4,071,103 | $ 5,050,150 |
| NET ASSETS - END OF PERIOD | | |
| General Partner's Equity | $ 100 | $ 100 |
| Class A Units | 200,489 | 747,216 |
| Class B Units | 1,357,707 | 1,993,272 |
| Class BN Units | 9,473,623 | 1,993,765 |
| Class F Units | 1,363,645 | 297,862 |
| | $ 12,395,564 | $ 5,032,215 |

*From October 31, 2012 (commencement of operations) to December 31, 2012.

# Statements of Cash Flow

| for the years ending December 31 | 2013 | 2012* |
|---|---|---|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets from operations | $ 3,292,246 | $ (17,935) |
| Net realized (gain) loss on sale of investments | (1,663,613) | - |
| Changes in unrealized (appreciation) depreciation in value of investments | (1,652,131) | (64,520) |
| | (23,498) | (82,455) |
| Adjustments to reconcile net increase (decrease) in net assets from operations to net cash provided by (used in) operating activities: | | |
| Purchase of investments | (31,681,355) | (1,031,337) |
| Proceeds from disposition of investments | 15,250,177 | - |
| (Increase) decrease in accrued investment income | (10,140) | (3,960) |
| Increase (decrease) in management fees payable | 13,970 | 3,841 |
| Increase (decrease) in performance fees payable | 5,072 | 3,353 |
| Increase (decrease) in accrued expenses payable | 3,675 | 1,415 |
| Increase (decrease) in legal and registration fees payable | (16,397) | 72,415 |
| Net cash provided by (used in) operating activities | (16,458,496) | (1,036,728) |
| Cash flows from financing activities: | | |
| Change in net margin loan and borrowing | 7,911,642 | - |
| Proceeds from units issued | 11,927,543 | 5,050,150 |
| Redemption of units | (7,393,767) | - |
| Net cash provided by (used in) financing activities | 12,445,418 | 5,050,150 |
| Increase (decrease) in cash during the period | (4,013,078) | 4,013,422 |
| Cash and cash equivalents, beginning of period | 4,013,422 | - |
| Cash and cash equivalents, end of period | $ 344 | $ 4,013,422 |

*From October 31, 2012 (commencement of operations) to December 31, 2012.

# Notes to Financial Statements

*December 31, 2013 and 2012*

## 1. ESTABLISHMENT OF THE PARTNERSHIP

Portland Focused Plus Fund LP (the "Partnership") is a limited partnership established under the laws of the Province of Alberta on October 22, 2012. Pursuant to the partnership agreement, Portland General Partner (Alberta) Inc. (the "General Partner") is responsible for the management of the Partnership. The General Partner has engaged Portland Investment Counsel Inc. (the "Manager") to direct the day-to-day business, operations and affairs of the Partnership, including management of the Partnership's portfolio on a discretionary basis and distribution of the Units of the Partnership.

### Definitions of Net Asset Value and Net Assets

Net Asset Value and Net Asset Value per unit are terms used to refer to the value of units for unitholder transactions (i.e., for pricing purposes). Net Assets and Net Assets per unit are terms used to describe the value determined solely for the purposes of the financial statements. Please refer to Note 2 for the difference in valuation techniques used in the calculation of Net Asset Value and Net Assets. A comparison of Net Assets per unit and Net Asset Value per unit is contained in Note 10.

The Partnership's Net Asset Value per unit is determined on the last business day of each month at the close of regular trading on the Toronto Stock Exchange, (each, a "Valuation Date") or on such other date as determined by the Manager (an "Additional Pricing Date"). The Partnership's Net Asset Value is calculated as the value of the Partnership's assets, less its liabilities. The Net Asset Value per unit of each class is computed by dividing the net asset value of the class by the total number of units outstanding of that class at the time. For calculation of the Partnership's Net Asset Value, including for the purpose of subscription and redemption of units, investments are valued based on the closing price for the Valuation Date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Partnership have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as defined by the Canadian Institute of Chartered Accountants ("CICA") Handbook (the "Handbook") Part V. These financial statements present the financial position and results of operations and cash flows for the Partnership only, and do not include the financial position, results of operations and cash flows of the General Partner and other limited partners. These financial statements include estimates and assumptions made by the Manager that may affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of significant accounting policies followed by the Partnership.

### Cash and cash equivalents

The Partnership considers highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents.

### Valuation of investments

For financial statement purposes, the fair value of the Partnership's investments is determined as follows:

- Investments are recorded at fair value, established by the closing bid price (the amount someone has offered to pay for a security) for long positions and the closing asking price (the amount someone has offered to take for a security) for short positions on the recognized exchange on which the investments are principally traded. Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques on such basis and in such manner as may be approved by the Manager.
- Securities not listed on any exchange are valued in the same manner as above, based upon any available public quotation in common use or at a price estimated to be the fair value thereof on such basis and in such manner as may be approved by the Manager.

For pricing purposes, the fair value of the Partnership's investments is determined as follows:

- The value of any security which is listed or dealt with upon a stock exchange or traded on an over-the-counter market is determined by taking the exchange specific closing price published by the exchange as of the Valuation Date. If there has been no trade, the mid price (average bid and asking price) as of the close of business on the Valuation Date is used to value the security.
- The value of any security which is not listed or traded on a stock exchange or the resale of which is restricted, is determined on the basis of such price as the Manager reasonably determines best reflects fair value.

### Transaction costs

Transaction costs are costs 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. Transaction costs are expensed and included in "Transaction costs" in the Statements of Operations.

### Cost of investments

The cost of investments represents the amount paid for each security, and is determined on an average cost basis excluding transaction costs. On the Statement of Investment Portfolio, transaction costs have been deducted in aggregate from the total cost of individual investments which include transaction costs.

### Investment transactions and income and expenses

Investment transactions are accounted for on the trade date. Realized gains and losses on sales of investments and unrealized appreciation or depreciation in the value of investments are calculated on an average cost basis.

Dividend income is recorded on the ex-dividend date. Interest income is accrued daily and expenses are accrued on each Valuation Date.

### Foreign currency translation

Portfolio investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars based on the exchange rate of such currencies against Canadian dollars on each Valuation Date.

Unrealized exchange gains or losses on securities are included in "Net change in unrealized appreciation (depreciation) in the value of investments" in the Statements of Operations.

Purchases and sales of securities and income items denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date.

Foreign exchange gain (loss) on currencies and other net assets arise from sale of foreign currencies, currency gains or losses realized between trade and settlement dates on securities transactions, and the difference between the recorded amounts of dividend, interest and foreign withholding taxes and the Canadian dollar equivalent of the amounts actually received or paid.

### Organization expenses

Organization expenses include legal and registration fees associated with the formation of the Partnership and are amortized over 5 years for purposes of calculating Net Asset Value and for tax purposes. In accordance with Canadian GAAP, these fees have been expensed in their entirety in the first fiscal year of the Partnership and are included as "Organization expenses" on the Statements of Operations for the period ending December 31, 2012.

### Increase (decrease) in net assets from operations per unit

"Increase (decrease) in net assets from operations per unit" in the Statements of Operations represents the increase (decrease) in net assets from operations of each class, divided by the weighted average units outstanding of each class during the financial period.

### Adoption of International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") previously confirmed that effective January 1, 2011, IFRS would replace Canadian Generally Accepted Accounting Principles for publicly accountable enterprises, which includes investment funds. The following events have subsequently occurred:

1) In September 2010, the AcSB approved the optional one year deferral of IFRS adoption for investment companies applying Accounting Guideline 18 - "Investment Companies" ("AcG 18") issued by the Canadian Institute of Chartered Accountants ("CICA"), to years beginning on or after January 1, 2012.
2) In January 2011, the AcSB approved a further one year deferral of IFRS adoption for investment companies applying AcG 18, to years beginning on or after January 1, 2013.
3) In March 2012, the AcSB further extended the deferral of mandatory adoption of IFRS for investment companies by one year to January 1, 2014 to provide time for the International Accounting Standards Board ("IASB") to finalize the guidance on investment entities.

Investment funds will now be required to mandatorily adopt IFRS for annual financial statements relating to annual periods beginning on or after January 1, 2014. Accordingly, IFRS is applicable for the Partnership effective January 1, 2014.

Based on the Manager's current evaluation of the significant differences between Canadian GAAP and IFRS, the adoption of IFRS is expected to have the following impact:

i) IAS 32, "Financial Instruments: Disclosure and Presentation", requires partners' equity to be classified as a liability unless certain conditions are met. The Manager is currently of the opinion that partners' equity will be classified as a liability, which is not expected to result in significant disclosure differences in the financial statements of the Partnership.

ii) IFRS 13, "Fair Value Measurements", provides guidance on the measurements of fair value and allows for the possibility of using closing prices to value instruments. The Manager intends to use closing prices to value certain investments that are currently required to use bid or ask prices, the result of which will be the use of similar valuation framework to that used in the determination of Net Asset Value.

The Manager has determined that the impact of IFRS will be limited to additional note disclosure and modifications to existing presentation, with the exception of implementation of IFRS 13, which may impact Net Assets. The Manager has not identified any changes that will impact Net Asset Value per unit as a result of the changeover to IFRS. Such assessments may change as a result of issuance of new standards. The Manager expects to meet the timetable published by the AcSB for changeover to IFRS.

### Distribution to the Limited Partners

Distributions will be made to the limited partners only at such times and in such amounts as may be determined in the discretion of the Manager. All distributions by the Partnership will be automatically reinvested in additional units of the same class of the Partnership held by the investor at the Net Asset Value thereof, unless the investor notifies the Manager in writing that cash distributions are preferred.

### Allocation of income and expense, and realized and unrealized gains and losses

Management fees directly attributable to a class are charged to that class. The Partnership's shared operating expenses, income, and realized and unrealized gains and losses are generally allocated proportionately to each class based upon the relative Net Asset Value of each class.

## 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments may include equity instruments, bonds, short-term investments (collectively referred to as "investments"), cash and cash equivalents, accrued investment income, subscriptions receivable and redemptions payable, receivables for investments sold, payables for investments purchased, distributions payable, accrued expenses and borrowings under a loan facility. Investments are classified as held for trading and fair valued based on the accounting policies described in Note 2. All other financial instruments are classified as loans and receivables or financial liabilities, as applicable, and recorded at amortized cost which approximates fair value due to their short-term maturities.

### Fair value of financial instruments

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each valuation. The fair value hierarchy is made up of the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on data corresponding to quoted prices for similar instruments in active markets; to quoted prices for identical or similar instruments in non-active markets; to data other than quoted prices used in a valuation model, that are observable for the instrument evaluated and to data derived from mainly observable data or that is corroborated by market data by correlation or other link;

Level 3 - valuation techniques based on significant unobservable market parameters.

The fair value hierarchy requires the use of observable data on the market each time such data exists. A financial instrument is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value.

The following table presents the financial instruments carried at fair value as at December 31, 2013 and December 31, 2012, classified under the fair value hierarchy described above:

| | As at December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Equities - Long | $20,842,779 | - | - | $20,842,779 |
| Total | $20,842,779 | - | - | $20,842,779 |

| | As at December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Equities - Long | $1,095,857 | - | - | $1,095,857 |
| Total | $1,095,857 | - | - | $1,095,857 |

There were no significant transfers between levels for the years ended December 31, 2013 and December 31, 2012.

## 4. RISK MANAGEMENT

The Partnership's investment activities may be exposed to various financial risks, including market risk (which entails currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Partnership's risk management goals are to ensure that the outcome of activities involving risk is consistent with the Partnership's investment objectives and risk tolerance per its offering memorandum.

### Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk). Financial instruments held by the Partnership are susceptible to market price risk arising from uncertainties about future prices of the instruments.

If the market prices of the Partnership's investments strengthened or weakened by 5%, net assets would have increased or decreased by approximately $1,042,139 (2012: $54,793). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Securities held by the Partnership may be valued in or have exposure to currencies other than the Canadian dollar, the functional currency of the Partnership, and when measured in Canadian dollars, be affected by fluctuations in the value of such currencies relative to the Canadian dollar.

Foreign currencies, to which the Partnership had exposure as at December 31, 2013 and December 31, 2012, are as follows:

| | As at December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Portfolio Holdings ($) | Cash ($) | Borrowing ($) | Total ($) | Percentage of Net Assets (%) |
| United States Dollar | 13,680,279 | - | (7,947,724) | 5,732,555 | 46.3% |
| Total | 13,680,279 | - | (7,947,724) | 5,732,555 | 46.3% |

| | As at December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Portfolio Holdings ($) | Cash ($) | Borrowing ($) | Total ($) | Percentage of Net Assets (%) |
| United States Dollar | 544,697 | 2,959 | - | 547,656 | 10.9% |
| Total | 544,697 | 2,959 | - | 547,656 | 10.9% |

If the Canadian dollar strengthened or weakened by 5% in relation to all other currencies held in the investment portfolio, net assets would have increased or decreased by approximately $286,628 (December 2012: $27,383). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

### Liquidity risk

Liquidity risk is the risk that a counterparty to a financial instrument may not be able to settle or meet its obligations on time or at a reasonable price. The Partnership's exposure to liquidity risk is concentrated in the cash redemption of units. Unitholders may redeem their units on a monthly basis at Net Asset Value per Unit. As a result, the Partnership invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. There can be no assurance that an active trading market for the investments will exist at all times, or that the prices at which the securities trade accurately reflect their values. All liabilities of the Partnership, except the Organizational expenses (see note 2), mature in one month or less.

### Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds. The income of the Partnership may be affected by changes to interest rates relevant to particular securities or as a result of management being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movement in the future.

As at December 31, 2013, the Partnership had exposure to interest rate risk due to its borrowings as described in note 8.

As at December 31, 2012, the Partnership held cash in RBC Investment Savings Account – Series A in the amount of $2,001,776, including $1,776 of accrued interest. This investment was short term in nature and was included in "Cash and cash equivalents" on the Statement of Net Assets.

### 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 Partnership. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

As at December 31, 2013, the Partnership did not have significant exposure to credit risk.

As at December 31, 2012, the Partnership had $2,001,776 of its net assets deposited in RBC Investment Savings Account – Series A. The issuer, Royal Bank of Canada, had an S&P credit rating on its short-term debt of A-1+ as at December 31, 2012. This deposit qualified as an insurable deposit for purposes of Canada Deposit Insurance Corporation.

## 5. INCOME TAXES

The Partnership calculates its taxable income and net capital gains/(losses) in accordance with the Income Tax Act (Canada). The Partnership is not a taxable entity and is required to allocate its taxable income and net capital gains/(losses) to its limited partners in accordance with the Limited Partnership Agreement. Accordingly, the Partnership has not included a provision for taxes in the financial statements.

The taxation year-end for the Partnership is December 31.

## 6. PARTNERS' EQUITY

The Partnership is permitted to have an unlimited number of classes of units, having such terms and conditions as the Manager may determine. Additional classes may be offered in future on different terms, including different fee and dealer compensation terms and different minimum subscription levels. Each unit of a class represents an undivided ownership interest in the net assets of the Partnership attributable to that class of units.

The Partnership endeavors to invest its capital in appropriate investments in conjunction with its investment objectives. The Partnership maintains sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments, where necessary.

The number of units issued and outstanding, and related activity, for the year ended December 31, 2013 and the period ended December 31, 2012 were as follows:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Class A Units | Class B Units | Class BN Units | Series F Units |
| Balance, as at December 31, 2012 | 14,969 | 39,611 | 39,601 | 6,000 |
| Units issued | - | 48,299 | 145,495 | 17,025 |
| Units reinvested | - | - | - | - |
| Units redeemed | 11,968 | 67,910 | 49,554 | 3,000 |
| Outstanding on December 31, 2013 | 3,001 | 20,000 | 135,542 | 20,025 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Class A Units | Class B Units | Class BN Units | Series F Units |
| Opening balance at inception | - | - | - | - |
| Units issued | 14,969 | 39,611 | 39,601 | 6,000 |
| Units reinvested | - | - | - | - |
| Units redeemed | - | - | - | - |
| Outstanding on December 31, 2012 | 14,969 | 39,611 | 39,601 | 6,000 |

In accordance with the Limited Partnership Agreement, the General Partner contributed $100 to the Partnership. No units were issued to the General Partner in exchange for this contribution. Net profit and loss of the Partnership is allocated to the General Partner in accordance with its proportionate allocation which is 0.001%.

## 7. MANAGEMENT FEES, PERFORMANCE FEES AND EXPENSES

Pursuant to the Limited Partnership Agreement, the Partnership agreed to pay management fees to the Manager, calculated and accrued on each Valuation Date and paid monthly.

The annual management fees rate of the respective class of units are as follows:

| | |
|---|---|
| Class A Units | 2.00% |
| Class F Units | 1.00% |
| Class B Units | 0.75% |
| Class BN Units | 1.75% |

The Manager is entitled to receive a performance fee to be calculated and accrued on each Valuation Date and Additional Pricing Date for each class of Units and paid monthly. The Performance Fee is equal to (a) 10% of the amount by which the Net Asset Value per Unit of the class on the Valuation Date or Additional Pricing Date (including the effect of any declared distributions on said Valuation Date or Additional Pricing Date and adjusted to exclude the accrual of the Performance Fee) exceeds the High Water Mark, multiplied by (b) the number of Units of that class outstanding on such Valuation Date or Additional Pricing Date, prior to giving effect to subscriptions, redemptions and distributions re-invested on such date.

All Performance Fees payable by the Partnership to the Manager are subject to GST and/or HST as applicable and will be deducted as an expense of the applicable class of Units in the calculation of the Net Asset Value of such class of Units.

For each class of Units, a high water mark ("High Water Mark") will be calculated for use in the determination of the Performance Fee. The highest Net Asset Value per Unit (minus the effect of any declared distributions since the Valuation Date or Additional Pricing Date that last Performance Fee became payable) for each class of Units, upon which a Performance Fee was paid, establishes a High Water Mark for each class of Units which must be exceeded subsequently for the Performance Fee applicable to each class of Units to be payable. Initially the High Water Mark will be the initial Net Asset Value per Unit of the class of Units.

The Manager will be reimbursed for any operating expenses it incurs on behalf of the Partnership, including: custodian fees, administration fees, accounting expenses, audit fees, interest and dividend expense on securities sold short and safekeeping charges, all taxes (including GST and HST, if any), assessments or other regulatory and governmental charges levied against the Partnership, interest and all brokerage fees. GST and HST paid by the Partnership on its expenses is not recoverable. The Manager may charge the Partnership for actual time spent by its personnel (or those of its affiliates) in overseeing the day-to-day business affairs of the Partnership. The amount charged for time spent by personnel is determined based on fully allocated costs and does not include a mark up or administration fee. The Manager has absorbed $Nil (December 31, 2012 - $34,423) of Partnership operating expenses for the period ending December 31, 2013. The Manager may absorb future Partnership operating expenses at its discretion but is under no obligation to do so.

## 8. LOAN FACILITY

The Partnership has a margin and security agreement with a Canadian chartered bank ("Bank") for the operation of a loan facility ("Loan Facility"). During the year, the rate of interest payable on borrowed money was a floating rate based on either the London Interbank Offered Rate or the Canadian Dollar Offered Rate plus a negotiated basis points rate of up to 1% based on the size of the Loan Facility. The rates are subject to change upon 30 days notice. The Bank may reduce or cancel the Loan Facility or require the Partnership to provide additional margin in the form of cash or securities without notice at any time. The total amount of interest paid during the year ending December 31, 2013 was $66,394 (2012: nil).

The Loan Facility is repayable on demand. The securities held with the Bank form collateral for the Loan Facility.

As at December 31, 2013, the Partnership was borrowing $7,947,724. This amount has been netted with $36,082 of cash held at the Bank and is presented as $7,911,642 of "Net borrowing loan and borrowing" on the Statement of Net Assets.

The Partnership borrowed a minimum of zero and a maximum of USD $8,024,518 under the Loan Facility in 2013 (2012: nil).

## 9. BROKERAGE COMMISSIONS

A portion of the brokerage commissions (referred to as "soft dollars") paid by the Partnership on securities purchases and sales to dealers (generally "full service" dealers) represents fees for goods and services, in the form of proprietary research, provided to the Manager by the dealer which are in addition to order execution services. The Manager may choose to effect portfolio transactions with dealers who provide research, statistical and other similar services to the Partnership or to the Manager at prices which reflect such services. The Manager may direct trades to a dealer in exchange for 'in-house' proprietary research. The dealers do not provide the Manager with an estimate of the cost of the research, statistical and other similar services.

## 10. COMPARISON OF NET ASSET VALUE

The Partnership calculates its Net Asset Value for capital transaction purposes, such as subscriptions and redemptions, using the closing sale prices of securities and uses the bid price in its financial statements. In addition, organization expenses are fully expensed for financial statement purposes, but are amortized over 5 years for capital transaction purposes.

A comparison between the Net Asset Value and the Net Assets presented in the financial statements is as follows:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Net Asset Value Per Unit ($) | Net Assets Per Unit ($) | Net Asset Value Per Unit ($) | Net Assets Per Unit ($) |
| Class A Units | 67.62 | 66.81 | 50.83 | 49.92 |
| Class B Units | 68.54 | 67.89 | 50.99 | 50.32 |
| Class BN Units | 70.23 | 69.89 | 51.02 | 50.35 |
| Class F Units | 68.37 | 68.10 | 50.97 | 49.64 |

## 11. RELATED PARTY TRANSACTION

Management fees were paid to the Manager in the amount of $159,362 (2012 - $6,509), net of applicable taxes.

Performance fees were paid to the Manager in the amount of $127,190 (2012 - $3,965) net of applicable taxes.

The amount paid to the Manager as reimbursement of operating expenses was $53,740 (2012 – $2,388), net of applicable taxes.

Affiliates of the Manager provide administration services associated with the day-to-day operations of the Partnership. These affiliates of the Manager were reimbursed $639 (net of applicable taxes) during the year ended December 31, 2013 (2012 - nil) by the Partnership for operating costs incurred in providing such services.

The Manager, its officers and directors may invest in units of the Partnership from time to time in the normal course of business. All such transactions are measured at net asset value per unit. As at December 31, 2013, one related party owned greater than 50% of the net assets of the Partnership. As at December 31, 2012, two related parties owned greater than 10% of the net assets of the Partnership.

**Statement of Corporate Governance Practices**

Canadian securities law requires certain reporting issuers to publish specific disclosure concerning their corporate governance practices. These disclosure requirements technically do not apply to Portland Focused Plus Fund LP. However, the Manager is committed to adhering to a high standard of corporate governance. The Manager has established an Independent Review Committee consisting of three members appointed to provide independent advice to assist the Manager in performing its services and to consider and provide recommendations to the Manager on conflicts of interest to which the Manager is subject when managing the Partnership.



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