

ISL Loan Trust II

Annual Report

May 31, 2014

Management Report of Fund Performance

This annual management report of fund performance for **ISL Loan Trust II** (the “Fund”) contains financial highlights but does not contain the complete annual financial statements of the Fund. **The annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the annual financial statements at no cost by writing to Aston Hill Capital Markets Inc. (the “Manager”) to the following address: Aston Hill Capital Markets Inc., 77 King Street West, Suite 2110, PO Box 92, Toronto, Ontario, M5K 1G8 or calling 1-800-513-3868 or visiting the Manager’s website at www.astonhill.ca or by visiting www.sedar.com. Unitholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

Note that any reference to “Net Assets” or “Net Assets per Unit” or “GAAP Net Assets” means that the value was determined in accordance with the Canadian Generally Accepted Accounting Principles “GAAP” for financial statements purposes. Also, any reference to “Net Asset Value” or “Net Asset Value per Unit” or “Transactional NAV” means that the value was determined for valuation and transactional purposes. An explanation of the difference between both values can be found in Note 3 to the financial statements.

Investment Objectives and Strategies

The Fund is an investment fund established under the laws of the Province of Ontario and governed by the Fund’s Trust Agreement (the “Trust Agreement”) dated February 26, 2013 between Aston Hill Capital Markets Inc. (the “Manager”) and Computershare Trust Company of Canada (the “Trustee”). The Fund’s principal office is located at 77 King Street West, Suite 2110, PO Box 92, Toronto, Ontario, M5K 1G8. The fiscal year-end of the Fund is May 31.

The beneficial interest in the net assets and net income of the Fund is divided into Units of two classes, Class A Units (the “Class A Units”) and Class U Units (the “Class U Units”). The Fund is authorized to issue an unlimited number of Units of each class. The Class U Units are denominated in U.S. Dollars.

The Fund’s investment objectives are to:

- (i) provide Unitholder with distributions, and
- (ii) provide an investment in a diversified portfolio consisting primarily of senior secured floating rate corporate loans (“Senior Loans”) and other senior debt obligations of non-investment grade North American borrowers, actively managed by Voya Investment Management Co. LLC (formally ING Investment Management Co. LLC) (the “Sub-Advisor”).

In order to achieve the Fund’s investment objectives, the Sub-Advisor invests in a broadly diversified portfolio (the “Portfolio”) composed primarily of Senior Loans. The Sub-Advisor generally seeks to make investments in Senior Loans and other debt obligations of borrowers that have (i) significant levels of assets and/or cash flow coverage; (ii) a protective capital structure, with adequate subordinated debt cushion; (iii) strong senior management; and (iv) attractive market positioning. The Portfolio consists primarily of Senior Loans that are expected to generate increased Portfolio cash flow in the event that short-term interest rates rise above applicable LIBOR floors (which set a minimum LIBOR rate for such loans). Up to 20% of Total Assets of the Fund may be invested in senior, unsecured floating rate loans and notes, second lien floating rate loans and notes, corporate debt securities, short-term debt obligations, money market obligations, and equity securities that are incidental to investment in loans.

Risk

The risk profile of the Fund has not changed. For full disclosure of risks associated with an investment in the Fund’s Units, please refer to the Prospectus dated February 26, 2013 and to the Fund’s Annual Information Form. Both are available at www.sedar.com.

Recent Developments

International Financial Reporting Standards (IFRS)

Beginning June 1, 2014, the Fund will prepare its semi-annual and annual financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and provide comparative statements on an IFRS basis, including an opening balance sheet as at June 1, 2013 (the transition date). The Fund will also report its interim financial statements for the period ending November 30, 2014, in accordance with IFRS.

The Manager has reviewed and developed its IFRS changeover plan that included performing an impact assessment and identifying differences between existing Canadian GAAP and IFRS. Management has monitored developments in IFRS and has assessed the likely impacts on accounting policies, implementation decisions, internal controls, information systems and training. Based on management's assessment to date, the more significant changes impacting the financial statements may be how the Fund measures the classification of net assets representing unitholders' equity. The Manager does not consider this to be comprehensive list of the accounting changes when the Fund adopts IFRS but in the view of the Manager represent the key differences.

Under Canadian GAAP, the Fund measures the fair values of its investments in accordance with the CPA Canada Handbook Section 3855, Financial Instruments – Recognition and Measurement. This section requires the use of bid prices for the long positions and asks prices for the short positions to the extent such prices are available. In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. The impact of this may result in the elimination of the differences between the transactional NAV and net assets at the financial statements reporting dates as reported in note 3 of the financial statements.

The Fund's outstanding redeemable unit entitlement includes a contractual obligation to deliver cash or another financial asset on the Fund's fixed termination date, and therefore the ongoing redemption feature is not the units only contractual obligation. The impact of the requirements of International Auditing Standards 32 - Financial Instruments Presentation is on classification only and does not impact net assets per unit.

Management will continue to monitor the Fund's IFRS changeover plan to address the key elements of the IFRS conversion.

Results of Operations

Caution regarding forward-looking statements

The analysis in the document includes forward looking statements. The use of any of the words anticipate, may, will, expect, estimate, should, believe and similar expressions are intended to identify forward-looking statements. Such statements reflect the opinion of the Investment Manager regarding factors that might be reasonably expected to affect the performance and the distributions on units of the Fund, and are based on information available at the time of writing. The Investment Manager believes that the expectations reflected in these forward-looking statements and in the analysis are reasonable but no assurance can be given that these expectations or the analysis will prove to be correct and accordingly, they should not be unduly relied on. These statements speak only as of the date of this report. Actual events and outcomes may differ materially from those described in these forward-looking statements or analysis.

Sub-Advisor's Commentary (July 2014)

Market Update

On the whole, the loan market performed relatively well during the Trust's fiscal year. Changing investor sentiment, prompted by "taper-talk" from the U.S. Federal Reserve, dominated the first half of the period, as investors attempted to

find a balance between the continued state of loose monetary policy and benign credit conditions on the one hand, and obsession with the prospect and implications of the Fed beginning to reduce its long-running bond buying program on the other. After a healthy start to the fiscal year, loans in June experienced one of the only negative total return months of 2013 (-0.59%). This occurred during a broad fixed income market correction, which was due largely to selling pressure from high-yield bond funds that were meeting large redemptions by reducing their more liquid loan exposure. A surge in new issue loan supply also was a factor. As Fed comments were absorbed over the ensuing months, investors again embraced risk more readily and markets recovered some, if not all, of their late spring losses.

The latter half of the Trust's fiscal year was defined by a generally bullish mindset, even considering the U.S. economy's surprisingly sharp contraction in the first quarter of 2014, due in large part to unusually severe weather. And, of course, throughout the period, the Fed and other central bankers remained as dovish as ever. This environment was conducive to greater risk taking, favoring the equity and high-yield fixed income markets while penalizing shorter-duration asset classes.

Of note during early April was the swift turn to outflow from U.S. retail loan funds and ETFs, a function, most believe, of waning enthusiasm over floating rate assets given the outlook for prospective interest rate moves. While certainly adding some volatility to the market, institutions, primarily in the form of newly formed Collateralized loan obligations (CLOs), have more than offset retail outflow, keeping a relatively solid floor under average secondary bid levels.

As to fundamentals, unforeseen negative credit events were few and far between during the Trust's fiscal year. To-date, trailing default rates at the Index level remain well inside the historical average for the asset class, and the traditional indicators of future default activity appear to be constructive. Although GDP growth has been variable and, for some time now, below what many feel should be the case at this point in the recovery, it has been sufficient for typical, below-investment-grade corporate issuers to comfortably cover their borrowing expenses and capital expenditures, with reasonable cushion. Outlook

Portfolio Specifics

The Trust generated a total return based on NAV of 9.19% for the fiscal year period, significantly above the Index return of 4.36%. Outperformance based on NAV was attributable to favorable credit selection and an emphasis on loans that provide excess coupon for the risk. For the period under review the Trust's weighted average coupon was 5.96%, as compared to 4.70% for the Index. Finally, the use of leverage for investment purposes also continued to have a positive impact on performance as average loan prices within the Index during the year remained relatively stable (98.79% at May 31, 2014, as compared to 98.22% at the end of the last fiscal year). Fundamental credit performance continued to be positive, as the Trust experienced only one default for the fiscal year (current recovery estimated at approximately 95.00%), compared to the Index's 7 defaults.

Outlook

Looking ahead, absent any unexpected shift in overall risk appetite, we would expect little change in market conditions through the balance of 2014. As for new loan supply, that would mean continued strength in M&A-related activity and sporadic reprising activity. As for investor demand, we anticipate the continuation of moderate retail outflows, significantly offset by CLO formation. Under a status quo economic scenario, new default activity should remain contained by few near-term maturities, decent corporate earnings and ample market liquidity. These factors, taken together, would paint a picture of relative stability, and an environment in which loans should continue to generate a reasonably attractive absolute return, one much less directly susceptible to any unexpected changes to market expectations as they relate to speed and magnitude of interest rate changes.

Capital transactions

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest (the "Units"), which units may be issued in any number of classes. Each Unit represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement.

On March 22, 2013, the Fund completed an initial public offering pursuant to the Prospectus dated February 26, 2013. The Fund issued 14,000,000 Class A Units for \$132,027,924 at \$9.43 per Class A Unit and 1,707,925 Class U Units for U.S. \$16,106,651 at U.S. \$9.43 per Class U Unit.

During the year May 31, 2014, the Fund redeemed 142,711 Class U Units for the amount of \$1,445,354 (during the period

from March 22, 2013 (commencement of operations) to May 31, 2013, the Fund issued an additional 14,746,568 Class A Units for the amount of \$139,067,164 and 1,707,925 Class U Units for the amount of \$16,468,295).

Leverage

The Fund may employ leverage of up to 40% of Total Assets for the purposes of acquiring assets for the Portfolio and such other short-term funding purposes as may be determined by the Sub-Advisor, in consultation with the Manager, from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns. Accordingly, the maximum amount of leverage that the Fund could employ is 1.67:1.

The Fund entered into a Credit Agreement dated April 30, 2014 between the Fund Manager (on behalf of the Fund) and the Bank of Nova Scotia (the "Counterparty"). Borrowings by the Fund are made in U.S. dollars. The Fund applied leverage in the range from nil to 38.9% or from nil to U.S. \$94,400,000 during the year ended May 31, 2014. The amount of U.S. \$67,400,000 or the Canadian equivalent of \$78,615,540 was outstanding as of May 31, 2014. The leverage factor was approximately 31.6 % as of May 31, 2014 (the Fund did not employ leverage during the period from March 22, 2013 (commencement of operations) to May 31, 2013 as the Fund was in the process of becoming fully invested). The related interest expense during the year ended May 31, 2014 was \$ 988,931 (\$nil during the same period ended May 31, 2013).

Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time.

The Fund paid distributions of \$7,898,683 to Class A Unitholders and the full amount was reinvested. U.S. \$1,592,370 distributions were paid to Class U Unitholders and among them U.S. \$783,081 was reinvested to the fund during the year ended May 31, 2014 (the fund did not declare any distributions during the period from March 22, 2013 (commencement of operations) to May 31, 2013).

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Fund tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended 2014 and the period from March 22, 2013 (commencement of operations) to May 31, 2013.

Related Party Transactions

Management Fees

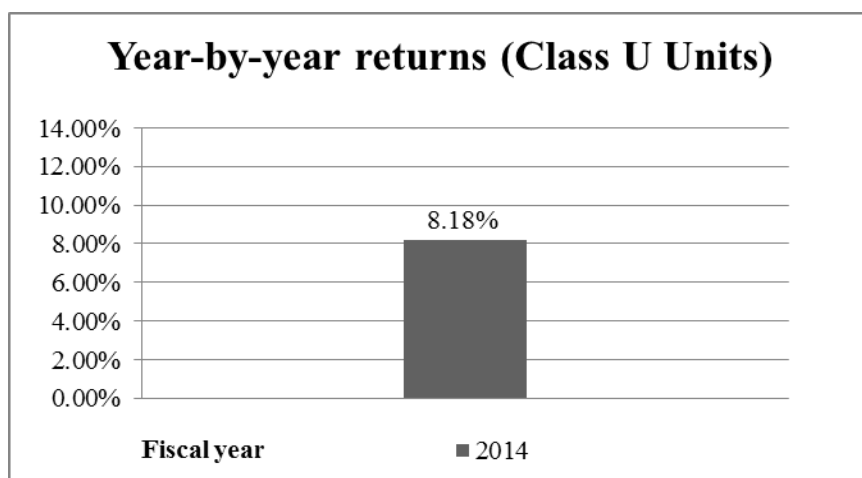
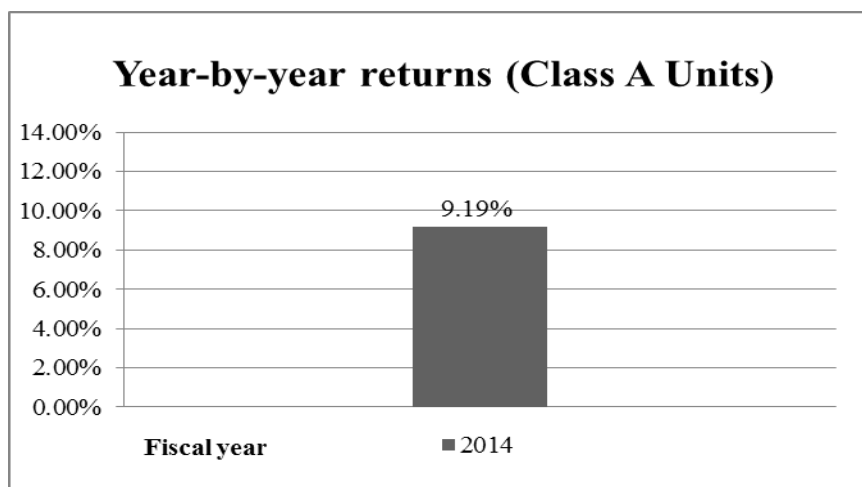
The Manager receives a management fee from the Fund equal in the aggregate to 0.75% per annum of the applicable Net Asset Value, calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the year ended May 31, 2014 were \$1,224,492 (during the period from March 22, 2013 (commencement of operations) to May 31, 2013 were \$223,738 plus applicable taxes).

The Manager is responsible for paying the fees of the Sub-Advisor out of the above management fees.

Past Performance

The following bar charts and table shows the Fund’s annual performance of the Class A Units and Class U Units by showing both annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the Fund during the year shown were reinvested. The performance information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns or performance. The bar charts show, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. Past performance is not necessarily indicative of future performance.



Annual Compound Returns

	Past Year	Since Inception ⁽¹⁾
Based on NAV (Class A Units)	9.19%	8.66%
Based on NAV (Class U Units)	8.18%	7.65%
S&P/LSTA Leveraged Loan Index	4.36%	5.10%

⁽¹⁾ Annualized for the period from March 22, 2013 (commencement of operations) to May 31, 2014.

The S&P/LSTA Leveraged Loan Index is an unmanaged total return index that captures accrued interest, repayments, and market value changes. It represents a broad cross section of leveraged loans syndicated in the United States, including dollar-denominated loans to overseas issuers. Standard & Poor’s and the Loan Syndications and Trading Association (“LSTA”) conceived the Index to establish a performance benchmark for the syndicated leveraged loan industry. The Index is not subject to any fees or expenses. An investor cannot invest directly in an index.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to aid in understanding the Fund's financial performance since inception. This information is derived from the Fund's audited annual financial statement:

Class A Units:

The Fund's Net Assets per Class A Unit:

	May 31, 2014 CAD	May 31, 2013 ⁽¹⁾ CAD
Net Assets, beginning of period	9.48	9.43
Increase (decrease) from operations:		
Total revenues	0.99	0.06
Total expenses	(0.16)	(0.02)
Realized gains (losses) for the period	(0.22)	0.06
Unrealized gains (losses) for the period	0.28	(0.05)
Total increase (decrease) from operations⁽²⁾	0.89	0.05
Distributions:		
From income (excluding dividends)	(0.54)	–
From dividends	–	–
From capital gains	–	–
Return of capital	–	–
Total Distributions⁽³⁾	(0.54)	–
Net Assets, end of period⁽⁴⁾	10.36	9.48

⁽¹⁾ Results for the period from March 22, 2013 (commencement of operations) to May 31, 2013.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of 14,746,568 Class A Units outstanding as of May 31, 2014 (May 31, 2013 – 14,473,177 units).

⁽³⁾ The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.

⁽⁴⁾ This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class A Units):

	May 31, 2014 CAD	May 31, 2013 ⁽¹⁾ CAD
Net asset value (000's)	153,540	140,580
Number of units outstanding	14,746,568	14,746,568
Base Management expense ratio ^{(2) (3)}	1.04%	1.13%
Interest expense ratio ^{(2) (3)}	0.61%	0.00%
Management expense ratio (annualized) ⁽³⁾	1.65%	1.13%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾	1.65%	1.13%
Portfolio turnover rate ⁽⁴⁾	214.86%	8.05%
Trading expense ratio ⁽⁵⁾	0.00%	0.00%
Net asset value per unit ⁽⁶⁾	10.41	9.53

⁽¹⁾ Results for the period from March 22, 2013 (commencement of operations) to May 31, 2013.

⁽²⁾ A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Interest expense ratio: representing cost of leverage.

⁽³⁾ Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

⁽⁴⁾ The Fund's turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

⁽⁵⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

⁽⁶⁾ The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

Class U Units:

The Fund's Net Assets per Class U Unit:

	May 31, 2014 USD	May 31, 2013 ⁽¹⁾ USD
Net Assets, beginning of period	9.46	9.43
Increase (decrease) from operations:		
Total revenues	0.96	0.06
Total expenses	(0.16)	(0.02)
Realized gains (losses) for the period	0.42	(0.06)
Unrealized gains (losses) for the period	0.03	0.15
Total increase (decrease) from operations ⁽²⁾	1.25	0.13
Distributions:		
From income (excluding dividends)	(0.49)	–
From dividends	–	–
From capital gains	–	–
Return of capital	(0.51)	–
Total Distributions ⁽³⁾	(1.00)	–
Net Assets, end of period ⁽⁴⁾	9.73	9.46

⁽¹⁾ Results for the period from March 22, 2013 (commencement of operations) to May 31, 2013.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of 1,619,059 Class U Units outstanding as of May 31, 2013 (May 31, 2013 – 1,707,925 units).

⁽³⁾ The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.

⁽⁴⁾ This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class U Units):

	May 31, 2014 USD	May 31, 2013 ⁽¹⁾ USD
Net asset value (000's)	15,295	16,252
Number of units outstanding	1,565,214	1,707,925
Base Management expense ratio ^{(2) (3)}	1.04%	1.13%
Interest expense ratio ^{(2) (3)}	0.60%	0.00%
Management expense ratio (annualized) ⁽³⁾	1.64%	1.13%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾	1.64%	1.13%
Portfolio turnover rate ⁽⁴⁾	8.05%	8.05%
Trading expense ratio ⁽⁵⁾	214.86%	0.00%
Net asset value per unit ⁽⁶⁾	9.77	9.52

⁽¹⁾ Results for the period from March 22, 2013 (commencement of operations) to May 31, 2013.

⁽²⁾ A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Interest expense ratio: representing cost of leverage.

⁽³⁾ Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

⁽⁴⁾ The Fund's turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

⁽⁵⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

⁽⁶⁾ The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

Summary of Investment Portfolio as of May 31, 2014

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at www.astonhill.ca and at www.sedar.com.

	Tranche Description	Maturity date	Fair value \$	% of NAV
Portfolio by Category				
Term loans			251,206,854	147.6%
Equities			1,453,816	0.9%
Cash overdraft			(5,058,451)	(3.0%)
Foreign currency forward contracts			395,631	0.2%
Bank indebtedness			(73,286,242)	(43.0%)
Other liabilities net of other assets			(4,563,047)	(2.7%)
Top 25 Holdings				
RedPrairie Corporation	Incremental 1st Lien Term Loan	21-Dec-18	3,232,311	1.9%
Global Tel*Link Corporation	Second Lien Term Loan	23-Nov-20	3,238,550	1.9%
BMC Software, Inc.	Euro Term Loan	10-Sep-20	2,872,923	1.7%
Clear Channel Communications, Inc.	Term Loan E	30-Jul-19	2,864,914	1.7%
Peppermill Casinos, Inc.	Term Loan B	17-Oct-19	2,753,819	1.6%
Penton Media, Inc.	1st Lien	3-Oct-19	2,731,439	1.6%
Go Daddy Operating Company, LLC	Term Loan	5-May-21	2,696,042	1.6%
KIK Custom Products, Inc.	1st Lien with incremental	29-Apr-19	2,646,118	1.6%
Merrill Communications, LLC	Term Loan B	8-Mar-18	2,571,328	1.5%
OneStopPlus Inc.	First Lien Term Loan	18-Mar-21	2,537,876	1.5%
Houghton International, Inc.	2nd Lien Term Loan	20-Dec-20	2,223,278	1.3%
CSM Bakery Supplies	First Lien Term Loan	3-Jul-20	2,203,058	1.3%
Husky Injection Molding Systems, Ltd.	Incremental Term Loan	30-Jun-21	2,179,505	1.3%
WIS International	Second Lien	20-Jun-19	2,171,700	1.3%
Herff Jones, Inc.	First Lien Term Loan	24-Jun-19	2,168,562	1.3%
Fram Group Holdings Inc.	First Lien Term Loan	29-Jul-17	2,169,482	1.3%
Alcatel-Lucent USA Inc.	US Term Loan	30-Jan-19	2,153,498	1.3%
Avaya Inc.	Term B-6 Loan	30-Mar-18	2,135,341	1.3%
CorpSource Finance Holdings, LLC	2nd Lien	30-Apr-19	2,127,126	1.3%
Miller Heiman, Inc.	Term Loan B	30-Sep-19	2,099,857	1.2%
Cannery Casino Resorts, LLC	1st Lien Term Loan	2-Oct-18	2,063,272	1.2%
WireCo WorldGroup, Inc.	Term Loan B	15-Feb-17	2,038,993	1.2%
Gardner Denver, Inc.	Term Loan B Euro	30-Jul-20	2,038,490	1.2%
Harvey Gulf International Marine, LLC	Upsized Term Loan B	18-Jun-20	2,032,271	1.2%
Hub International Limited	Term Loan B	2-Oct-20	2,001,027	1.2%
Net asset value			170,148,561	

Management's Responsibility for Financial Reporting

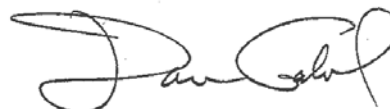
The accompanying financial statements to **ISL Loan Trust II** (the "Fund") and all of the information therein have been prepared by Aston Hill Capital Markets Inc. in its capacity as Manager of the Fund and have been approved by the Board of Directors of the Manager. The Fund's Manager is responsible for all of the information and representations contained in these financial statements and other sections of the Annual Report. Management maintains appropriate processes to ensure that relevant and reliable financial information is produced.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements are not precise since they include certain amounts based on estimates and judgements. The Manager has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this Annual Report is consistent with the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the Unitholder. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholder their opinion on the financial statements. Their report is contained within.



W. Neil Murdoch
President and Chief Executive Officer
Aston Hill Capital Markets Inc.



Darren Cabral
Vice President and Chief Financial Officer
Aston Hill Capital Markets Inc.

Toronto, Canada
August 27, 2014



August 27, 2014

Independent Auditor's Report

**To the Unitholder of
ISL Loan Trust II (the Fund)**

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at May 31, 2014, the statements of net assets as at May 31, 2014 and May 31, 2013, and the statements of operations, changes in net assets and retained earnings and cash flows for the year ended May 31, 2014 and for the period from March 22, 2013 (commencement of operations) to May 31, 2013, 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 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 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.

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at May 31, 2014 and May 31, 2013 and the results of its operations, changes in its net assets and its cash flows for the year ended May 31, 2014 and for the period from March 22, 2013 (commencement of operations) to May 31, 2013 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

ISL Loan Trust II

Statements of Net Assets

As at May 31, 2014 and 2013

	2014	2013
Assets	\$	\$
Cash	-	1,946,053
Short-term investments	-	18,406,484
Investments at fair value (cost - \$245,563,449; 2013 - \$242,040,718)	251,849,920	245,313,364
Receivable from investment sales	7,218,289	31,450
Interest receivable	1,716,659	488,112
Other receivable	142,728	121,064
Unrealized gain on forward currency contracts	439,460	364,534
	<u>261,367,056</u>	<u>266,671,061</u>
Liabilities		
Cash overdraft	5,058,451	-
Bank indebtedness (note 6)	73,286,242	-
Payable on investment purchases	13,422,068	107,221,582
Accounts payable and accrued liabilities	102,804	74,960
Management fees payable	115,851	112,709
Unrealized loss on foreign currency forward contracts	43,829	2,831,097
	<u>92,029,245</u>	<u>110,240,348</u>
Net assets and unitholder's equity	<u>169,337,811</u>	<u>156,430,713</u>
Net Assets		
Class A	152,808,750	139,734,480
Class U	16,529,061	16,696,233
Class U (USD)	USD 15,222,232	USD 16,154,258
Units issued and outstanding (note 5)		
Class A	14,746,568	14,746,568
Class U	1,565,214	1,707,925
Net assets per unit		
Class A	10.36	9.48
Class U	10.56	9.78
Class U (USD)	USD 9.73	USD 9.46
Unitholder's equity (note 5)		
Unit Capital	154,159,399	155,535,459
Retained Earnings	15,178,412	895,254
Total Unitholder's equity	<u>169,337,811</u>	<u>156,430,713</u>

Approved on behalf of the Manager,
Aston Hill Capital Markets Inc.



Director



Director

ISL Loan Trust II

Statements of Operations

For the year ended May 31, 2014 and period from March 22, 2013 (commencement of operations) to May 31, 2013

	2014	2013
	\$	\$
Income		
Interest income	16,224,408	1,008,800
Expenses		
Management fees (note 8)	1,224,492	223,738
Interest expense	988,931	-
Custodial and other unitholder fees	250,016	71,206
Harmonized sales tax	159,184	29,086
Other fees	35,621	13,600
Audit fees	15,942	1,906
Legal fees	4,182	-
Filing fees	1,650	320
	<u>2,680,018</u>	<u>339,856</u>
Investment income	13,544,390	668,944
Unrealized gain (loss)		
Unrealized gain (loss) on investments	3,013,825	3,272,646
Unrealized gain (loss) on foreign exchange	(1,662,596)	(1,352,033)
Unrealized gain (loss) on foreign currency forward contracts	2,862,194	(2,466,563)
	<u>4,213,423</u>	<u>(545,950)</u>
Realized gain (loss)		
Net realized gain (loss) on investments	10,224,144	110,756
Net realized gain (loss) on foreign exchange	(3,797,632)	736,251
Net realized gain (loss) on foreign currency forward contracts	(8,952,642)	(74,747)
	<u>(2,526,130)</u>	<u>772,260</u>
Net gain (loss) on investments	<u>1,687,293</u>	<u>226,310</u>
Increase (decrease) in net assets from operations	<u>15,231,683</u>	<u>895,254</u>
Increase (decrease) in net assets from operations for		
Class A	13,074,270	667,316
Class U	2,157,413	227,938
Class U (USD) *	USD 2,025,276	USD 223,609
Increase (decrease) in net assets from operations per unit **		
Class A	0.89	0.05
Class U	1.33	0.13
Class U (USD) *	USD 1.25	USD 0.13

* (based on average exchange rate for the period)

** (based on weighted average number of units outstanding during the period)

(See accompanying notes to financial statements)

ISL Loan Trust II

Statements of Changes in Net Assets and Retained Earnings

For the year ended May 31, 2014 and period from March 22, 2013 (commencement of operations) to May 31, 2013

	Class A 2014 \$	Class A 2013 \$	Class U 2014 \$	Class U 2013 \$	Total 2014 \$	Total 2013 \$
Increase (decrease) in net assets from operations	13,074,270	667,316	2,157,413	227,938	15,231,683	895,254
Distributions to unitholder from: (note 7)						
Return on capital	(7,898,683)	-	(850,308)	-	(8,748,991)	-
Net investment income	-	-	(879,231)	-	(879,231)	-
	(7,898,683)	-	(1,729,539)	-	(9,628,222)	-
Unitholder's transactions (note 5)						
Proceeds from issue of units	-	139,067,164	-	16,468,295	-	155,535,459
Distributions reinvested	7,898,683	-	850,308	-	8,748,991	-
Payments on redemption / cancellation of units	-	-	(1,445,354)	-	(1,445,354)	-
	7,898,683	139,067,164	(595,046)	16,468,295	7,303,637	155,535,459
Change in net assets during the period	13,074,270	139,734,480	(167,172)	16,696,233	12,907,098	156,430,713
Net assets - Beginning of period	139,734,480	-	16,696,233	-	156,430,713	-
Net assets - End of period	152,808,750	139,734,480	16,529,061	16,696,233	169,337,811	156,430,713
Retained earnings, beginning of period	667,316	-	227,938	-	895,254	-
Increase (decrease) in net assets from operations	13,074,270	667,316	2,157,413	227,938	15,231,683	895,254
Distributions to unitholder	-	-	(879,231)	-	(879,231)	-
Cost of shares repurchased in excess of the original issue price	-	-	(69,294)	-	(69,294)	-
Retained earnings, end of period	13,741,586	667,316	1,436,826	227,938	15,178,412	895,254

ISL Loan Trust II

Statements of Cash Flows

For the year ended May 31, 2014 and period from March 22, 2013 (commencement of operations) to May 31, 2013

	2014	2013
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	15,231,683	895,254
Items not affecting cash:		
Unrealized (gain) loss on investments	(3,013,825)	(3,272,646)
Unrealized (gain) loss on foreign currency forward contracts	(2,862,194)	2,466,563
Net realized (gain) loss on investments	(10,224,144)	(110,756)
Changes in non-cash working capital:		
(Increase) decrease in interest receivable	(1,228,547)	(488,112)
(Increase) decrease in other receivable	(21,664)	(121,064)
Increase (decrease) in accounts payable and accrued liabilities	27,844	74,960
Increase (decrease) in management fees payable	3,142	112,709
Purchase of investment portfolio	(444,809,379)	(146,981,591)
Proceeds on disposition of investment portfolio	350,524,439	12,241,761
Net cash flow (used in) operating activities	<u>(96,372,645)</u>	<u>(135,182,922)</u>
Financing Activities		
Proceeds from issuance of units	-	155,535,459
Distributions to unitholder net of reinvestment	(879,231)	-
Payments on redemption of units	(1,445,354)	-
Bank indebtedness	73,286,242	-
Net cash flow provided by financing activities	<u>70,961,657</u>	<u>155,535,459</u>
Net increase (decrease) in cash and short-term investments	(25,410,988)	20,352,537
Cash - beginning of year	1,946,053	-
Short-term investments - beginning of year	18,406,484	-
Cash - end of year	(5,058,451)	1,946,053
Short-term investments - end of year	<u>-</u>	<u>18,406,484</u>
Interest paid	988,931	-

ISL Loan Trust II
Statement of Investment Portfolio
As at May 31, 2014

	Tranche Description	Maturity date	No. of shares/ par value	Average Cost (CAD)	Fair Value (CAD)	% of NAV
Investments⁽¹⁾						
Term loans**						
RedPrairie Corporation	Incremental 1st Lien Term Loan	21-Dec-18	USD 2,977,500	3,175,364	3,224,226	2.0%
Global Tel*Link Corporation	Second Lien Term Loan	23-Nov-20	USD 3,000,000	3,037,055	3,222,260	1.9%
BMC Software, Inc.	Euro Term Loan	10-Sep-20	EUR 1,920,188	2,690,033	2,863,808	1.7%
Clear Channel Communications, Inc.	Term Loan E	30-Jul-19	USD 2,632,372	2,830,319	2,857,567	1.7%
Peppermill Casinos, Inc.	Term Loan B	17-Oct-19	USD 2,471,225	2,603,833	2,743,756	1.6%
Penton Media, Inc.	1st Lien	3-Oct-19	USD 2,487,500	2,568,886	2,719,060	1.6%
Go Daddy Operating Company, LLC	Term Loan	5-May-21	USD 2,468,385	2,701,743	2,690,347	1.6%
KIK Custom Products, Inc.	1st Lien with incremental	29-Apr-19	USD 2,436,147	2,482,181	2,636,198	1.6%
Merrill Communications, LLC	Term Loan B	8-Mar-18	USD 2,340,242	2,415,286	2,571,328	1.5%
OneStopPlus Inc.	First Lien Term Loan	18-Mar-21	USD 2,308,371	2,533,202	2,531,610	1.5%
Houghton International, Inc.	2nd Lien Term Loan	20-Dec-20	USD 2,000,000	2,108,758	2,215,134	1.3%
CSM Bakery Supplies	First Lien Term Loan	3-Jul-20	USD 2,014,775	2,133,411	2,197,041	1.3%
Husky Injection Molding Systems, Ltd.	Incremental Term Loan	30-Jun-21	USD 2,000,000	2,074,254	2,173,737	1.3%
WIS International	Second Lien	20-Jun-19	USD 2,000,000	2,110,262	2,171,700	1.3%
Herff Jones, Inc.	First Lien Term Loan	24-Jun-19	USD 1,983,884	2,067,452	2,162,278	1.3%
Fram Group Holdings Inc.	First Lien Term Loan	29-Jul-17	USD 1,996,295	2,064,542	2,162,258	1.3%
Alcatel-Lucent USA Inc.	US Term Loan	30-Jan-19	USD 1,976,237	2,046,325	2,149,026	1.3%
Avaya Inc.	Term B-6 Loan	30-Mar-18	USD 1,975,466	2,217,143	2,128,972	1.3%
CorpSource Finance Holdings, LLC	2nd Lien	30-Apr-19	USD 1,930,000	1,970,401	2,116,647	1.2%
Miller Heiman, Inc.	Term Loan B	30-Sep-19	USD 1,987,500	1,981,663	2,080,434	1.2%
Cannery Casino Resorts, LLC	1st Lien Term Loan	2-Oct-18	USD 1,894,225	1,963,296	2,056,844	1.2%
WireCo WorldGroup, Inc.	Term Loan B	15-Feb-17	USD 1,862,651	1,928,388	2,032,672	1.2%
Gardner Denver, Inc.	Term Loan B Euro	30-Jul-20	EUR 1,364,571	1,848,852	2,031,991	1.2%
Harvey Gulf International Marine, LLC	Upsized Term Loan B	18-Jun-20	USD 1,890,500	1,900,241	2,025,856	1.2%
Hub International Limited	Term Loan B	2-Oct-20	USD 1,840,750	1,925,321	1,996,780	1.2%
Fortescue Metals Group Ltd.	New Term Loan	30-Jun-19	USD 1,815,875	1,900,634	1,968,688	1.2%
MedSolutions Holdings, Inc.	Term loan B	8-Jul-19	USD 1,795,063	1,952,779	1,954,042	1.2%
TI Group Automotive Systems, L.L.C.	Term Loan B	28-Mar-19	USD 1,757,250	1,885,409	1,915,265	1.1%
CityCenter Holdings, LLC	Term Loan	16-Oct-20	USD 1,748,125	1,876,034	1,910,540	1.1%
BJs Wholesale Club Inc.	First Lien Term Loan	26-Sep-19	USD 1,745,625	1,824,176	1,896,490	1.1%
Crestwood Holdings LLC	Term Loan	19-Jun-19	USD 1,715,712	1,784,678	1,893,279	1.1%
Atkins Nutritionals Holdings II, Inc.	1st Lien Term Loan	2-Jan-19	USD 1,732,500	1,764,854	1,881,235	1.1%
McGraw Hill Global Education	Term Loan B	22-Mar-19	USD 1,694,334	1,910,122	1,865,090	1.1%
US Finco LLC	Second lien term loan	20-Nov-20	USD 1,675,000	1,756,480	1,855,175	1.1%
Atkins Nutritionals Holdings II, Inc.	2nd Lien Term Loan	3-Apr-19	USD 1,680,000	1,714,154	1,842,470	1.1%
Global Cash Access, Inc.	Term Loan	1-Mar-16	USD 1,686,957	1,747,821	1,829,492	1.1%
Bronco Midstream Funding, LLC	Term Loan	15-Aug-20	USD 1,677,382	1,808,270	1,828,215	1.1%
Connolly / iHealth Technologies	First Lien	14-May-21	USD 1,623,975	1,774,140	1,772,210	1.0%
Neiman Marcus Group, Inc.	Term Loan	25-Oct-20	USD 1,592,010	1,777,746	1,724,362	1.0%
Royal Adhesives & Sealants, LLC	First Lien Term Facility	31-Jul-18	USD 1,555,121	1,668,440	1,699,887	1.0%
WNA Holdings Inc (a.k.a Waddington Group)	USD Second Lien Term Loan	30-Nov-20	USD 1,490,283	1,635,259	1,638,451	1.0%
Fairmount Minerals, Ltd.	Tranche B-2 Term Loans	5-Sep-19	USD 1,492,500	1,659,146	1,636,162	1.0%
Ikaria Acquisition Inc.	First lien term loan	12-Feb-21	USD 1,500,000	1,668,977	1,634,544	1.0%
4L Holdings Inc.	Term loan B	8-May-20	USD 1,500,000	1,609,517	1,628,775	1.0%
Carestream Health Inc.	2nd Lien	7-Dec-19	USD 1,473,554	1,496,864	1,628,060	1.0%
Valeant Pharmaceuticals International, Inc.	Series E-1 Tranche B	5-Aug-20	USD 1,498,900	1,633,803	1,623,964	1.0%
Blackboard Inc.	Term Loan B-3	4-Oct-18	USD 1,485,028	1,587,582	1,621,085	1.0%
Springer Science & Business Media S.A.	Initial Term B2 Loan	14-Aug-20	USD 1,492,500	1,480,518	1,619,955	1.0%
TWCC Holding Corporation	2nd lien term loan	26-Jun-20	USD 1,500,000	1,605,978	1,611,808	1.0%
Monitronics International, Inc.	Add-on Term Loan	23-Mar-18	USD 1,481,226	1,532,308	1,608,389	0.9%
MPH Acquisition Holdings LLC	Term loan	31-Mar-21	USD 1,486,364	1,618,157	1,606,571	0.9%
Leslies Poolmart, Inc.	Term Loan B	16-Oct-19	USD 1,457,452	1,557,063	1,577,629	0.9%
Advance Pierre Foods Inc.	2nd Lien Term Loan	10-Oct-17	USD 1,500,000	1,579,567	1,569,053	0.9%
Southern Graphics Inc.	Term Loan	17-Oct-19	USD 1,443,750	1,538,188	1,567,696	0.9%
WASH Multifamily Laundry Systems, LLC	USD Term Loan	21-Feb-19	USD 1,440,000	1,481,259	1,559,715	0.9%
Carestream Health, Inc.	1st Lien	7-Jun-19	USD 1,433,589	1,503,288	1,558,932	0.9%
Securus Technologies, Inc.	Upsized 1st Lien Term Loan	30-Apr-20	USD 1,412,925	1,508,567	1,530,006	0.9%
MMI International Ltd.	Term Loan B	20-Nov-18	USD 1,409,722	1,401,596	1,515,439	0.9%
iQor US Inc.	1st Lien Term Loan	1-Apr-21	USD 1,452,381	1,541,648	1,500,186	0.9%
Landry's Restaurants Inc.	Term Loan	24-Apr-18	USD 1,377,205	1,414,031	1,496,372	0.9%
Otter Products, LLC	Term Loan B	29-Apr-19	USD 1,346,904	1,403,796	1,461,926	0.9%
Polarpak Inc.	CAD Term Loan	30-May-20	CAD 1,447,059	1,439,806	1,448,868	0.9%
CorpSource Finance Holdings, LLC	1st Lien Term Loan	30-Apr-18	USD 1,323,775	1,375,179	1,441,015	0.9%
Quikrete Holdings Inc.	Term Loan B	26-Sep-20	USD 1,318,375	1,341,101	1,429,470	0.8%
Waterpik Inc.	1st Lien	8-Jul-20	USD 1,288,525	1,350,100	1,399,145	0.8%
Aspect Software, Inc.	Term Loan	7-May-16	USD 1,271,538	1,315,199	1,386,740	0.8%
Berlin Packaging, LLC	2nd Lien Term Loan	2-Apr-20	USD 1,250,000	1,311,283	1,384,459	0.8%
Ikaria Acquisition Inc.	Second lien term loan	12-Feb-22	USD 1,250,000	1,382,954	1,374,279	0.8%
Aricent Group	First Lien Term Loan	14-Apr-21	USD 1,250,000	1,370,224	1,359,857	0.8%
New Wave Communications	Including Add on Term Loan B	30-Apr-20	USD 1,240,626	1,356,445	1,349,660	0.8%
Accellent, Inc.	First Lien Term Loan	12-Mar-21	USD 1,250,000	1,390,938	1,348,406	0.8%
Millennium Laboratories, LLC	Term Loan B	16-Apr-21	USD 1,200,000	1,304,246	1,309,535	0.8%
Del Taco Holdings, Inc.	Term Loan	1-Oct-18	USD 1,191,618	1,199,567	1,296,075	0.8%
iQor US Inc.	2nd Lien Term Loan	1-Apr-22	USD 1,250,000	1,348,973	1,291,992	0.8%
Wabash National Corporation	Term Loan B	8-May-19	USD 1,180,000	1,226,837	1,281,303	0.8%
Oxea S.a.r.l.	First lien term loan USD	15-Jan-20	USD 1,169,125	1,269,286	1,269,494	0.7%

ISL Loan Trust II

Statement of Investment Portfolio Continued

As at May 31, 2014

	Tranche Description	Maturity date	No. of shares/ par value	Average Cost (CAD)	Fair Value (CAD)	% of NAV
Term loans.... Continued						
Eze Castle Software, Inc.	2nd Lien Term Loan	5-Apr-21	USD 1,160,000	1,280,640	1,251,714	0.7%
Securus Technologies, Inc.	Upsized 2nd Lien Term Loan	30-Apr-21	USD 1,125,000	1,181,437	1,232,779	0.7%
Pre-Paid Legal Services, Inc.	Second Lien Term Loan	31-May-20	USD 1,080,000	1,174,834	1,194,706	0.7%
Golden Nugget, Inc.	Term Loan	21-Nov-19	USD 1,047,375	1,098,737	1,163,564	0.7%
Action Holding B.V.	Facility C	8-Mar-19	EUR 765,000	1,028,634	1,144,833	0.7%
Blue Coat Systems, Inc.	Second Lien Term Loan	28-Jun-20	USD 1,000,000	1,038,560	1,102,138	0.7%
Websense, Inc.	2nd Lien Term Loan	24-Dec-20	USD 1,000,000	1,074,649	1,090,601	0.6%
Minerals Technologies Inc.	Senior Secured Term Loan	9-May-21	USD 1,000,000	1,084,892	1,088,565	0.6%
Men's Wearhouse	Term Loan	18-Jun-21	USD 1,000,000	1,085,585	1,086,936	0.6%
Advantage Sales & Marketing, Inc.	First Lien Term Loan	18-Dec-17	USD 1,000,000	1,096,003	1,086,820	0.6%
First Data Corporation	Extended Term Loan	24-Mar-21	USD 1,000,000	1,095,902	1,086,746	0.6%
First American Payment Systems, L.P.	2nd Lien	11-Apr-19	USD 1,000,000	1,091,979	1,085,850	0.6%
Santander Asset Management S.a.r.l.	Term Loan B-1 USD	17-Dec-20	USD 997,500	1,071,765	1,083,812	0.6%
Hawaiian Telcom Communications, Inc.	Term Loan B	6-Jun-19	USD 991,074	1,028,656	1,081,807	0.6%
National Financial Partners Corp.	Add-On Term Loan B	24-Jun-20	USD 992,513	1,001,207	1,081,425	0.6%
Blue Coat Systems, Inc.	First Lien Term Loan	31-May-19	USD 997,045	1,088,620	1,080,274	0.6%
U.S. Telepacific Corp.	First Lien Term Loan	23-Feb-17	USD 988,610	1,012,693	1,076,703	0.6%
Advance Pierre Foods Inc.	1st Lien Term Loan B	10-Jul-17	USD 993,725	1,064,553	1,076,002	0.6%
Eze Castle Software, Inc.	Term Loan B-1	29-Mar-20	USD 992,500	1,096,831	1,075,910	0.6%
Doncasters Group Limited	First Lien Term Loan USD add-on	5-Apr-20	USD 990,000	1,019,696	1,075,663	0.6%
Centaur Acquisition, LLC	1st Lien Term Loan	20-Feb-19	USD 989,888	1,082,121	1,075,206	0.6%
Pep Boys Manny Moe & Jack	Term Loan B	11-Oct-18	USD 987,500	1,029,259	1,074,931	0.6%
Protection One, Inc.	Term Loan B	21-Mar-19	USD 989,914	1,017,992	1,074,226	0.6%
Dell International LLC	Term B Loans	29-Apr-20	USD 990,013	1,030,294	1,072,440	0.6%
AmWINS Group, Inc.	Term Loan B	6-Sep-19	USD 987,507	1,025,473	1,072,285	0.6%
Zayo Group, LLC	Term Loan B	2-Jul-19	USD 987,443	1,016,607	1,069,726	0.6%
RentPath, Inc.	Term Loan B	29-May-20	USD 985,019	1,025,214	1,067,577	0.6%
Wilsonart International Holdings LLC	Term Loan B	31-Oct-19	USD 987,501	1,026,730	1,064,571	0.6%
Univision Communications, Inc.	Term Loan-C4	1-Mar-20	USD 980,038	1,083,645	1,060,374	0.6%
Vince, LLC	Term Loan	4-Nov-19	USD 954,879	996,244	1,047,224	0.6%
P.F. Chang's China Bistro, Inc.	Term Loan	2-Jul-19	USD 967,955	1,002,370	1,047,112	0.6%
SurveyMonkey.com, LLC	Term Loan B	4-Feb-19	USD 962,530	1,046,446	1,045,163	0.6%
Fram Group Holdings Inc.	Second Lien Term Loan	29-Jan-18	USD 1,000,000	1,026,009	1,023,414	0.6%
Packaging Coordinators, Inc.	1st Lien Term Loan B	10-May-20	USD 942,875	949,184	1,021,261	0.6%
SRAM, LLC	First Lien Term Loan	10-Apr-20	USD 949,441	958,594	1,018,063	0.6%
Data Device Corp. (DDC)	1st Lien Term Loan	11-Jul-18	USD 931,416	956,491	1,011,378	0.6%
Global Tel*Link Corporation	First Lien Term Loan	23-May-20	USD 920,000	994,577	991,490	0.6%
Web.com Group, Inc.	Term Loan	27-Oct-17	USD 902,222	939,851	985,800	0.6%
FTS International, Inc.	Term Loan	16-Apr-21	USD 897,048	977,669	980,148	0.6%
Roundys Supermarkets, Inc.	Term Loan B	3-Mar-21	USD 900,000	982,769	978,079	0.6%
Aptean Holdings, Inc.	1st Lien Term Loan	26-Feb-20	USD 900,000	992,797	976,043	0.6%
Utility Services Associates	Term Loan	30-Sep-20	USD 887,775	909,571	968,810	0.6%
Federal-Mogul Corporation	Term Loan C	15-Apr-21	USD 875,000	943,627	946,358	0.6%
Cooper Gay Swett & Crawford, Ltd.	2nd Lien Term Loan	16-Oct-20	USD 900,000	927,911	945,504	0.6%
Connolly / iHealth Technologies	Second Lien	14-May-22	USD 850,000	917,614	936,817	0.6%
First American Payment Systems	1st Lien Term Loan	12-Oct-18	USD 856,000	885,781	930,069	0.5%
Foam Investments II S.a.r.l.	First lien Term Loan USD	2-Jul-20	USD 852,863	886,231	923,766	0.5%
Stuart Weitzman Holdings, LLC	Term Loan	8-Apr-20	USD 840,000	934,507	906,413	0.5%
STS Operating, Inc.	First Lien Term Loan	21-Feb-21	USD 825,000	913,709	896,946	0.5%
Envision Acquisition Company, LLC	First lien term loan	4-Nov-20	USD 820,875	862,320	895,804	0.5%
Hudson's Bay Company	Term Loan	4-Nov-20	USD 809,375	842,307	886,301	0.5%
Cengage Learning Acquisition, Inc.	First Lien Term Loan	31-Mar-20	USD 785,000	852,817	865,711	0.5%
Twin River Management Group, Inc.	Term Loan B	10-Jul-20	USD 800,000	872,626	864,337	0.5%
Doosan Infracore Bobcat Holdings Co., Ltd.	Term Loan B	28-May-21	USD 780,000	848,549	849,610	0.5%
Walker & Dunlop Inc.	Term Loan	20-Dec-20	USD 748,125	813,856	822,506	0.5%
Checkout Holding Corp.	First Lien Term Loan	9-Apr-21	USD 750,000	822,927	815,660	0.5%
Medpace Holdings, Inc.	Term loan B	1-Apr-21	USD 750,000	813,823	815,066	0.5%
ServiceMaster Company	Term Loan	31-Jan-17	USD 750,000	822,063	813,660	0.5%
CEC Entertainment, Inc.,	First Lien Term Loan	14-Feb-21	USD 750,000	819,159	806,922	0.5%
International Equipment Solutions, LLC	Term Loan	16-Aug-19	USD 738,255	793,453	804,640	0.5%
Cooper Gay Swett & Crawford, Ltd.	1st Lien Term Loan	16-Apr-20	USD 744,375	761,571	788,746	0.5%
Consolidated Communications, Inc.	Term Loan B	23-Dec-20	USD 717,764	803,573	782,550	0.5%
Vestcom International, Inc.	Term Loan	27-Dec-18	USD 718,535	739,924	780,221	0.5%
P2 Lower Acquisition LLC	First lien	22-Oct-20	USD 715,102	744,198	778,435	0.5%
Advantage Sales & Marketing, Inc.	Upsized 2nd Lien Term Loan	17-Jun-18	USD 694,857	713,514	769,601	0.5%
Allflex Holdings III, Inc.	2nd Lien Term Loan	17-Jul-21	USD 700,000	727,151	765,479	0.5%
EveryWare, Inc.	Term Loan	21-May-20	USD 992,500	1,008,957	765,171	0.5%
Aricent Group	Second Lien Term Loan	14-Apr-22	USD 700,000	764,206	757,245	0.4%
BBB Industries, LLC	Term Loan B	27-Mar-19	USD 688,750	743,605	747,256	0.4%
Equinox Holdings, Inc.	Second Lien Term Loan	31-Jul-20	USD 666,667	742,185	724,805	0.4%
Penton Media, Inc.	2nd Lien	3-Oct-20	USD 650,000	667,877	709,332	0.4%
USI, Inc.	Term Loan B	27-Dec-19	USD 641,899	696,534	696,135	0.4%
Sophos Ltd.	Term Loan B USD	27-Jan-21	USD 634,600	699,872	691,378	0.4%
Savers, Inc.	Term Loan B	9-Jul-19	USD 632,945	656,468	688,572	0.4%
Pre-Paid Legal Services, Inc.	First Lien Term Loan	1-Jul-19	USD 619,792	677,638	679,311	0.4%
Polarpak Inc.	USD Term Loan (Canadian Borrower)	30-May-20	USD 624,818	655,711	678,459	0.4%
Magic Newco LLC	Term Loan B add-on	12-Dec-18	USD 619,333	644,782	677,127	0.4%
Sedgwick Holdings, Inc.	2nd Lien Term Loan	28-Feb-22	USD 625,000	686,768	676,535	0.4%

ISL Loan Trust II

Statement of Investment Portfolio Continued

As at May 31, 2014

	Tranche Description	Maturity date	No. of shares/ par value	Average Cost (CAD)	Fair Value (CAD)	% of NAV
Term loans.... Continued						
Tropicana Entertainment Inc.	Term Loan	27-Nov-20	USD 621,875	656,572	676,107	0.4%
Aquilex LLC (a.k.a Hydrochem)	Term Loan	31-Dec-20	USD 598,500	637,481	651,506	0.4%
Spin Holdco Inc.	Feb 2014 Upsized Term Loan	14-Nov-19	USD 597,004	606,583	647,041	0.4%
Mercury Payment Systems LLC	Term Loan B Inc	1-Jul-17	USD 592,418	612,875	642,875	0.4%
Monarch (Allnex S.a.r.l.)	First lien term loan B-1	3-Oct-19	USD 557,708	572,938	606,092	0.4%
Atlantic Power Limited Partnership	Term Loan	26-Feb-21	USD 525,000	575,285	573,634	0.3%
Ship US Bideo, Inc. (Worldpay)	Term Loan C2	29-Nov-19	USD 520,000	524,359	566,995	0.3%
CBAC Borrower, LLC	Funded Term Loan B	2-Jul-20	USD 500,000	513,084	561,927	0.3%
BJs Wholesale Club Inc.	Second Lien Term Loan	26-Mar-20	USD 500,000	522,499	557,584	0.3%
Wilton Brands, Inc.	Term Loan	30-Aug-18	USD 534,825	551,126	556,542	0.3%
KIK Custom Products, Inc.	2nd Lien Term Loan	29-Oct-19	USD 500,000	515,721	550,164	0.3%
Asp Leg Merger Sub Inc.	Term loan	5-May-21	USD 500,000	539,773	546,997	0.3%
Apteon Holdings, Inc.	2nd Lien Term Loan	26-Feb-21	USD 500,000	548,029	546,997	0.3%
Learfield Communications, Inc.	First Lien Term Loan	9-Oct-20	USD 498,750	546,982	544,952	0.3%
CHS/Community Health Systems, Inc.	Term Loan D	22-Jan-21	USD 498,750	548,413	544,445	0.3%
24 Hour Fitness Worldwide, Inc.	Term Loan B	28-May-21	USD 500,000	539,773	544,282	0.3%
XO Communications LLC	First Lien Term Loan	19-Mar-21	USD 500,000	549,812	544,282	0.3%
Oberthur Technologies of America Corp.	Tranche B-2 Term Loans Repriced	18-Oct-19	USD 498,750	549,632	544,276	0.3%
NEP/NCP Holdco, Inc.	Term Loan B with Add on	22-Jan-20	USD 500,000	549,787	542,382	0.3%
Vantage Specialties Inc.	Incremental Term Loan Facility	10-Feb-19	USD 497,471	523,049	541,867	0.3%
Active Network, Inc.	1st Lien Term Loan	15-Nov-20	USD 498,750	526,578	540,891	0.3%
American Casino and Entertainment Properties LLC	1st Lien Term Loan	3-Jul-19	USD 496,250	553,101	540,874	0.3%
Genesys Telecommunications Laboratories, Inc.	Existing Term Loan B	8-Feb-20	USD 500,000	545,308	540,210	0.3%
CHG Medical Staffing, Inc.	Upsized 2nd lien term loan	19-Nov-20	USD 490,217	513,385	539,400	0.3%
Catalent Pharma Solutions, Inc.	USD Term Loan B	20-May-21	USD 494,987	540,222	539,246	0.3%
Kronos Incorporated	Upsized Term Loan	30-Oct-19	USD 494,885	517,348	538,715	0.3%
Minimax Viking GmbH	Facility B1 Loan	14-Aug-20	USD 487,720	502,994	530,914	0.3%
Avaya Inc.	Term B-3 Loan	26-Oct-17	USD 494,205	481,378	518,596	0.3%
R.H. Donnelley Corporation	TERM LOAN	31-Dec-16	USD 679,201	482,691	504,273	0.3%
Golden Nugget, Inc.	Delayed Draw Term Loan	21-Nov-19	USD 448,875	470,887	498,670	0.3%
Redtop Acquisitions Limited	First lien Term Loan Euro	3-Dec-20	EUR 325,000	460,045	485,507	0.3%
Del Monte Foods Consumer Products, Inc.	2nd Lien	18-Aug-21	USD 450,000	474,658	483,135	0.3%
Sensus Metering Systems Inc.	Upsized 1st Lien Term Loan	9-May-17	USD 410,813	423,402	446,267	0.3%
Asurion, LLC	Second Lien Term Loan	3-Mar-21	USD 400,000	430,189	444,438	0.3%
Affinia Group Inc.	Term Loan B-2	25-Apr-20	USD 405,045	421,185	442,017	0.3%
Britax US Holdings Inc.	Initial Dollar Term Loan	15-Oct-20	USD 417,900	437,100	423,525	0.3%
Twin River Management Group, Inc.	Term Loan B	10-Nov-18	USD 383,167	387,851	412,941	0.2%
Sybil Finance B.V.	Term Loan	20-Mar-20	USD 365,000	402,670	395,510	0.2%
Duff & Phelps, LLC	Add-on Term Loan	23-Apr-20	USD 353,804	365,036	384,978	0.2%
Electrical Components International, Inc.	Term Loan B	28-May-21	USD 350,000	379,749	383,373	0.2%
Hyland Software, Inc.	1st Lien Term Loan	19-Feb-21	USD 350,000	387,655	381,314	0.2%
Visant Corporation	10% Senior Notes due 2017	1-Oct-17	USD 375,000	383,450	380,726	0.2%
M/A-COM Technology Solutions Holdings, Inc.	Term Loan B	7-May-21	USD 350,000	381,261	380,048	0.2%
Applied Systems Inc.	1st Lien Term Loan	25-Jan-21	USD 349,125	382,677	379,413	0.2%
TMS International	Term B Loan	16-Oct-20	USD 349,125	368,604	379,413	0.2%
Key Safety Systems, Inc.	Term Facility	10-May-18	USD 343,125	342,545	373,141	0.2%
WNA Holdings Inc (a.k.a Waddington Group)	USD Upsized Term Loan (US Borrower)	30-May-20	USD 342,220	359,140	371,599	0.2%
TPF Generation Holdings, LLC	Term Loan B	31-Dec-17	USD 348,250	349,575	366,330	0.2%
Cooper-Standard Automotive Inc.	Term Loan B	4-Apr-21	USD 325,000	357,847	352,791	0.2%
Talbots Inc.	First Lien Term Loan	19-Mar-20	USD 325,000	358,542	350,254	0.2%
Fender Musical Instruments Corp.	Term Loan B	3-Apr-19	USD 320,400	336,577	349,646	0.2%
Jason Incorporated	2nd Lien Term Loan	21-May-22	USD 325,000	342,314	342,314	0.2%
Monarch (Allnex S.a.r.l.)	Second lien term loan	3-Apr-20	USD 306,182	328,652	341,056	0.2%
VAT Holding	Term Loan B	11-Feb-21	USD 300,000	332,604	327,384	0.2%
ASTER II S.A.	USD Term Loan B1	2-May-21	USD 300,000	323,166	324,635	0.2%
Del Monte Foods Consumer Products, Inc.	1st Lien	18-Feb-21	USD 299,250	331,772	324,372	0.2%
AZ Chem US Inc.	Term Loan B	22-Dec-17	USD 295,585	308,846	320,760	0.2%
Monarch (Allnex S.a.r.l.)	First lien term loan B-2	3-Oct-19	USD 289,368	297,270	315,585	0.2%
Xerium Technologies, Inc.	Unsecured Notes	15-Jun-18	USD 270,000	304,163	312,969	0.2%
Aegis Toxicology Sciences Corporation	1st Lien Term Loan	24-Feb-21	USD 275,000	303,355	300,848	0.2%
Filtration Group Corporation	First Lien Term Loan	21-Nov-20	USD 274,313	285,510	299,649	0.2%
Western Refining, Inc.	Term Loan	12-Nov-20	USD 274,313	288,782	299,538	0.2%
Accellent, Inc.	Second lien term loan	11-Mar-22	USD 275,000	305,653	295,996	0.2%
Berlin Packaging, LLC	First Lien Term Loan	2-Apr-19	USD 263,675	267,301	287,266	0.2%
LTS Buyer LLC	2nd Lien Term Loan	12-Apr-21	USD 253,000	266,686	277,696	0.2%
SuperMedia, Inc.	Term Loan	30-Dec-16	USD 306,704	237,309	276,419	0.2%
Learfield Communications, Inc.	Second Lien Term Loan	9-Oct-21	USD 250,000	258,180	276,213	0.2%
Centauro Acquisition, LLC	2nd Lien Term Loan	20-Feb-20	USD 250,000	262,612	275,082	0.2%
Filtration Group Corporation	Second Lien Term Loan	22-Nov-21	USD 250,000	258,897	274,856	0.2%
Knowledge Universe Education, LLC	Term loan B	18-Mar-21	USD 250,000	274,906	274,177	0.2%
PharMEDium Healthcare Corporation	Second lien term loan	28-Jan-22	USD 250,000	277,170	274,007	0.2%
CareCore National, LLC	Term loan B	5-Mar-21	USD 250,000	275,329	272,989	0.2%
Kronos Worldwide, Inc.	Term Loan B Facility	18-Feb-20	USD 250,000	273,339	272,905	0.2%
Omnitracs Inc.	Upsized First Lien Term Loan	25-Nov-20	USD 249,375	267,941	272,363	0.2%
ION Trading Technologies Limited	Second lien term loan	22-May-21	USD 250,000	255,804	272,141	0.2%
Atrium Innovations, Inc.	USD 2nd Lien Term Loan	13-Aug-21	USD 250,000	277,170	271,802	0.2%
US Ecology Inc.	Term Loan	17-Jun-21	USD 250,000	270,784	270,784	0.2%
Ennis Flint (a.k.a Road Infrastructure Investment LLC)	First Lien Term Facility	31-Mar-21	USD 250,000	279,113	270,671	0.2%

ISL Loan Trust II

Statement of Investment Portfolio Continued

As at May 31, 2014

	Tranche Description	Maturity date	No. of shares/ par value	Average Cost (CAD)	Fair Value (CAD)	% of NAV
Term loans.... Continued						
Xerium Technologies, Inc.	Term Loan B	17-May-19	USD 247,500	248,319	270,092	0.2%
August US Holding Co. Inc.	US Term Loan	27-Apr-18	USD 247,490	254,407	269,241	0.2%
Atrium Innovations, Inc.	USD 1st Lien Term Loan	13-Feb-21	USD 250,000	277,170	268,918	0.2%
MoneyGram International, Inc.	New Term Loan Add-On	27-Mar-20	USD 250,000	276,304	266,717	0.2%
TricorBraun Inc.	Term Loan	3-May-18	USD 239,557	241,557	260,123	0.2%
Weight Watchers International, Inc.	Term Loan B-2	2-Apr-20	USD 291,264	255,930	250,446	0.1%
Colouroz Investment 2 LLC	USD Term Loan B2	3-May-21	USD 214,884	231,413	233,113	0.1%
OmniTracs Inc.	Upsized Second Lien Term Loan	25-May-21	USD 200,000	211,699	219,161	0.1%
StoneRiver Group, LP	2nd Lien	30-May-20	USD 163,386	170,893	177,635	0.1%
Aster II S.A.	USD Term Loan C	2-May-21	USD 85,116	91,664	92,106	0.1%
Attachmate Corporation	1st Lien Term Loan	22-Nov-17	USD 25,169	25,855	27,501	0.0%
Caesars Entertainment Operating Company, Inc.	Term Loan B4 (Incremental)	31-Oct-16	USD 338	354	369	0.0%
Total term loans				<u>244,004,408</u>	<u>250,426,604</u>	<u>148.0%</u>
			Shares	Average cost	Fair value	% of NAV
				\$	\$	
Common Stock						
Information Technology						
Cengage Learning Holdings			37,451	1,559,041	1,423,316	0.8%
Total Common Stock				<u>1,559,041</u>	<u>1,423,316</u>	<u>0.8%</u>
Total investments				<u>245,563,449</u>	<u>251,849,920</u>	<u>148.8%</u>
		Maturity date		Contract price / rate	Unrealized gain (loss)	% of NAV
				\$	\$	
Foreign currency forward contracts						
Bought CAD 6,587,768, sold EUR 4,413,000		20-Jun-14		0.669887	46,527	0.0%
Bought CAD 143,013,713, sold USD 131,325,000		20-Jun-14		0.918269	352,231	0.2%
Bought CAD 16,525,811, sold USD 15,175,133		20-Jun-14		0.918269	40,702	0.0%
Bought CAD 1,517,726, sold USD 1,400,000		20-Jun-14		0.922433	(3,127)	0.0%
Bought CAD 16,525,811, sold USD 15,175,133 ⁽²⁾		20-Jun-14		0.918269	(40,702)	0.0%
Total foreign currency forward contracts					<u>395,631</u>	<u>0.2%</u>
Bank indebtedness (note 6)					<u>(73,286,242)</u>	<u>-43.3%</u>
Other liabilities net of other assets					<u>(9,621,498)</u>	<u>-5.7%</u>
Net assets of the Fund					<u>169,337,811</u>	<u>100.0%</u>

(1) The investments held in the portfolio are all floating rate notes.

(2) The unrealized forward currency contract gain and losses are attributed to and allocated solely to the Class U Units.

ISL Loan Trust II

Notes to Financial Statements

May 31, 2014

1 Corporate activities

ISL Loan Trust II (the "Fund") is an investment fund established under the laws of the Province of Ontario and governed by the Fund's Trust Agreement (the "Trust Agreement") dated February 26, 2013 between Aston Hill Capital Markets Inc. (the "Manager") and Computershare Trust Company of Canada (the "Trustee"). The Fund commenced operations on March 22, 2013. The Fund's principal office is located at 77 King Street West, Suite 2110, PO Box 92, Toronto, Ontario, M5K 1G8. The fiscal year-end of the Fund is May 31.

The beneficial interest in the net assets and net income of the Fund is divided into Units of two classes, Class A Units and Class U Units. The Fund is authorized to issue an unlimited number of Units of each class. The Class U Units are denominated in U.S. Dollars.

2 Investment objectives

The Fund's investment objectives are to:

- (i) provide Unitholder with distributions, and
- (ii) provide an investment in a diversified portfolio consisting primarily of senior secured floating rate corporate loans ("Senior Loans") and other senior debt obligations of non-investment grade North American borrowers, actively managed by Voya Investment Management Co. LLC (formerly ING Investment Management Co. LLC) (the "Sub-Advisor").

In order to achieve the Fund's objectives, the Sub-Advisor invests in a broadly diversified portfolio (the "Portfolio") composed primarily of Senior Loans. The Sub-Advisor generally seeks to make investments in Senior Loans and other debt obligations of borrowers that have (i) significant levels of asset and/or cash flow coverage; (ii) a protective capital structure, with adequate subordinated debt cushion; (iii) strong senior management; and (iv) attractive market positioning. The Portfolio consists primarily of Senior Loans that are expected to generate increased Portfolio cash flow in the event that short-term interest rates rise above applicable LIBOR floors (which set a minimum LIBOR rate for such loans). Up to 20% of Total Assets of the Fund may be invested in senior, unsecured floating rate loans and notes, second lien floating rate loans and notes, corporate debt securities, short-term debt obligations, money market obligations and equity securities that are incidental to investments in loans.

3 Summary of significant accounting policies

Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that 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 the significant accounting policies of the Fund.

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with Chartered Professional Accountant Canada (the "CPA Canada") 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore, are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets" or "net assets"). 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. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The Canadian Securities Administrators allow investment funds to calculate the daily net asset value for the purpose of processing unitholder transactions using the last traded price for the day as fair value of financial instruments traded in an active market, which is referred to as a "Transactional NAV" or "NAV".

The reconciliation between the Transactional NAV and GAAP Net Assets is as follows:

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
Class A Unit			
May 31, 2014	10.41	(0.05)	10.36
May 31, 2013	9.53	(0.05)	9.48
Class U Unit			
May 31, 2014	10.61	(0.05)	10.56
May 31, 2013	9.83	(0.05)	9.78
Class U Unit (USD)			
May 31, 2014	9.77	(0.04)	9.73
May 31, 2013	9.52	(0.06)	9.46

Cash and short-term investments

Cash and short-term investments include cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

Income recognition

Income from investments is recognized on an accrual basis. Interest income is accrued based on the number of days the investment is held during the period. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments and derivatives, which are deemed held for trading. Realized gains (losses) are recorded on the transaction date they are incurred.

ISL Loan Trust II

Notes to Financial Statements

May 31, 2014

Expense recognition

Expenses that are directly attributable to the Fund are recorded on an accrual basis as incurred.

Increase (decrease) in net assets from operations per unit

This calculation is based on the increase (decrease) in net assets from operations attributable to each class divided by the weighted average number of units of that class outstanding during the period.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the year. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates. The Fund's Class U Units are denominated in U.S. Dollars.

Foreign currency forward contracts

The Fund hedges against changes in the U.S. currency relative to the Canadian currency in respect of the Class U Units and in doing so, attempts to eliminate the fluctuations between the Canadian and the U.S. currencies. The Class U Units are substantially hedged using forward currency contracts and the gains and losses on these forward currency contracts are attributed to and allocated solely to the Class U Units. The carrying value of the foreign currency forward contracts is the gain or loss that would be realized if the position were closed out on the valuation date and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as net realized gain or loss on foreign currency forward contracts.

Valuation of a class

A separate net assets per unit is calculated for each class. The net assets of a class are computed by calculating the class' proportionate share of the assets and liabilities to all classes, less the liabilities attributable only to that class. Expenses directly attributable to a class are charged to that class. Other expenses, income, realized and unrealized gains and losses are allocated proportionately to each class based upon the relative net assets of each class.

Designation of financial assets and liabilities

For the purpose of measuring and recognizing assets and liabilities, the following designations have been made: All investments, including derivatives, if any, are recognized at fair value and are designated as held for trading. Accrued interest and dividends receivable, amounts receivable for capital shares sold and securities sold and other assets are designated as loans and receivables and reported at cost or amortized cost. Amounts payable for securities purchased and capital shares redeemed, other liabilities and accrued expenses are designated as other financial liabilities and reported at amortized cost.

Related party transactions

All related party transactions occur in the normal course of operations and are recorded at an amount of consideration agreed to by the parties.

International Financial Reporting Standards (IFRS)

Beginning June 1, 2014, the Fund will prepare its semi-annual and annual financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and provide comparative statements on an IFRS basis, including an opening balance sheet as at June 1, 2013 (the transition date). The Fund will also report its interim financial statements for the period ending November 30, 2014, in accordance with IFRS.

The Manager has reviewed and developed its IFRS changeover plan that included performing an impact assessment and identifying differences between existing Canadian GAAP and IFRS. Management has monitored developments in IFRS and has assessed the likely impacts on accounting policies, implementation decisions, internal controls, information systems and training. Based on management's assessment to date, the more significant changes impacting the financial statements may be how the Fund measures the classification of net assets representing unitholders' equity. The Manager does not consider this to be comprehensive list of the accounting changes when the Fund adopts IFRS but in the view of the Manager represent the key differences.

Under Canadian GAAP, the Fund measures the fair values of its investments in accordance with the CPA Canada Handbook Section 3855, Financial Instruments – Recognition and Measurement. This section requires the use of bid prices for the long positions and asks prices for the short positions to the extent such prices are available. In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. The impact of this may result in the elimination of the differences between the transactional NAV and net assets at the financial statements reporting dates as reported in note 3 of the financial statements.

The Fund's outstanding redeemable unit entitlement includes a contractual obligation to deliver cash or another financial asset on the Fund's fixed termination date, and therefore the ongoing redemption feature is not the units only contractual obligation. The impact of the requirements of International Auditing Standards 32 - Financial Instruments Presentation is on classification only and does not impact net assets per unit.

Management will continue to monitor the Fund's IFRS changeover plan to address the key elements of the IFRS conversion.

4 Custodian

State Street Trust Company Canada acts as custodian (the "Custodian") of the assets of the Fund. The Custodian carries out the safe guarding of the Fund's assets. In consideration for this service, the Fund pays a fee to the Custodian.

5 Unitholders' equity

The Fund is authorized to issue an unlimited number of redeemable, transferable Units of beneficial interest, which Units may be issued in any number of classes. Each Unit represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement.

On March 22, 2013, the Fund completed an initial public offering pursuant to the Prospectus dated February 26, 2013. The Fund issued 14,000,000 Class A Units for \$132,027,924 at \$9.43 per Class A Unit and 1,707,925 Class U Units for U.S. \$16,106,651 at U.S. \$9.43 per Class U Unit.

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Notes to Financial Statements

May 31, 2014

During the year May 31, 2014, the Fund redeemed 142,711 Class U Units for the amount of \$1,445,354 (during the period from March 22, 2013 (commencement of operations) to May 31, 2013, the Fund issued an additional 14,746,568 Class A Units for the amount of \$139,067,164 and 1,707,925 Class U Units for the amount of \$16,468,295).

Changes in outstanding Units during the year ended May 31, 2014 and period from March 22, 2013 (commencement of operations) to May 31, 2013 are summarized as follows:

	Class A Units		Class U Units	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Balance – beginning of period	14,746,568	–	1,707,925	–
Units issued	–	14,746,568	–	1,707,925
Units redeemed	–	–	(142,711)	–
Balance – end of period	<u>14,746,568</u>	<u>14,746,568</u>	<u>1,565,214</u>	<u>1,707,925</u>

The Unit Capital dollar amount represents the face value of the Fund's Units minus any return on capital distributions paid since March 22, 2013 (commencement of operations) to May 31, 2014. If the redemption price is lower than the average cost per unit, the difference is included in Contributed Surplus on the Statement of Net Assets. If the redemption price is greater than the average cost per unit, the difference is first charged to Contributed Surplus until the balance in Contributed Surplus is eliminated and the remaining amount is charged to Retained Earnings.

The Fund considers capital to include all Units issued and outstanding. The Fund manages its capital in accordance with the objectives outlined in Note 2.

6 Bank indebtedness

The Fund may employ leverage of up to 40% of Total Assets for the purpose of acquiring assets for the Portfolio and such other short-term funding purposes as may be determined by the Sub-Advisor, in consultation with the Manager, from time to time and in accordance with the Investment Strategy. Accordingly, the maximum amount of leverage that the Fund could employ is 1.67:1.

The Fund entered into a Credit Agreement dated April 30, 2014 between the Fund Manager (on behalf of the Fund) and the Bank of Nova Scotia (the "Counterparty"). Borrowings by the Fund are made in U.S. dollars. The Fund applied leverage in the range from nil to 38.9% or from nil to U.S. \$94,400,000 during the year ended May 31, 2014. The amount of U.S. \$67,400,000 or the Canadian equivalent of \$ 73,286,242 was outstanding as of May 31, 2014. The leverage factor was approximately 31.6 % as of May 31, 2014 (the Fund did not employ leverage during the period from March 22, 2013 (commencement of operations) to May 31, 2013 as the Fund was in the process of becoming fully invested). The related interest expense during the year ended May 31, 2014 was \$ 988,931 (\$nil during the same period ended May 31, 2013).

7 Distributions

The Fund does not have a fixed distribution. The Fund pays distributions if, as and when declared by the Fund from time to time.

The Fund paid distributions of \$7,898,683 to Class A Unitholders and the full amount was reinvested. U.S. \$1,592,370 distributions were paid to Class U Unitholders and among them U.S. \$783,081 was reinvested to the fund during the year ended May 31, 2014 (the Fund did not declare any distributions during the period from March 22, 2013 (commencement of operations) to May 31, 2013).

8 Management fees and related party transactions

The Manager receives a management fee from the Fund equal in the aggregate to 0.75% per annum of the applicable NAV, calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the year ended May 31, 2014 were \$1,224,492 (during the period from March 22, 2013 (commencement of operations) to May 31, 2013 were \$223,738 plus applicable taxes).

The Manager is responsible for paying the fees of the Sub-Advisor out of the above management fees.

9 Income taxes

The Fund is a financial institution for purposes of the "specified debt obligation" and "mark-to-market" rules contained in the Income Tax Act (Canada) as more than 50% of the fair market value of all interests in the Fund are held any time by one or more such financial institutions. The Fund is subject to tax in each taxation year under Part I of the Income Tax Act (Canada) on the amount of its income for the year, including net unrealized gains, if any, less the portion thereof that it deducts in respect of the amount paid or payable to Unitholders in the year. The Fund may also be subject to "minimum tax" under the Tax Act.

It is the intention of the Manager that all annual net taxable income will be distributed to Unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be eliminated. As a result thereof, and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

The Fund did not have any net taxable capital losses at tax year ends December 31, 2013. The Fund did not have any non-capital carry forward balances as at the tax year end December 31, 2013.

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Notes to Financial Statements

May 31, 2014

10 Broker commission charges and soft dollar services

There were \$nil broker commissions paid during the year ended May 31, 2014 and period from March 22, 2013 (commencement of operations) to May 31, 2013 in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

11 Financial instruments

For the purposes of categorization in accordance with CPA Canada Section 3862, Financial Instruments – Disclosures, cash is reported at fair value, receivable from investment sales, interest receivable, other receivable and prepaid expenses are deemed to be loans and receivables and reported at cost or amortized cost. Similarly, payable on securities purchased, management fees payable and accounts payable and accrued liabilities are deemed to be financial liabilities and reported at amortized cost.

The following tables illustrate the classification of the Fund's financial instruments within the fair value hierarchy as at May 31, 2014 and 2013:

Assets at fair value as at May 31, 2014	Level 1	Level 2	Level 3	Total
Term loans	–	250,426,604	–	250,426,604
Equities	1,423,316	–	–	1,423,316
Foreign currency forward contracts	–	439,460	–	439,460
Total	1,423,316	250,866,064	–	252,289,380

Liabilities at fair value as at May 31, 2014	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	43,829	–	43,829
Total	–	43,829	–	43,829

Assets at fair value as at May 31, 2013	Level 1	Level 2	Level 3	Total
Term loans	–	245,313,364	–	245,313,364
Short-term investments	–	18,406,484	–	18,406,484
Foreign currency forward contracts	–	364,534	–	364,534
Total	–	264,084,382	–	264,084,382

Liabilities at fair value as at May 31, 2013	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	2,831,097	–	2,831,097
Total	–	2,831,097	–	2,831,097

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

Term loans and short-term investments: Term loans and short-term investments are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities and are not actively traded.

Equities: The Fund's long equity positions are classified as Level 1 as the security held is actively traded and a reliable quote is observable.

Foreign currency forward contracts: Foreign currency forward contracts for which inputs, including interest rates, forward market rates and credit spreads are observable and reliable or for which unobservable inputs are determined not to be significant to fair value, are classified as Level 2.

There were no transfers among the three levels during the year ended 2014 and period from March 22, 2013 (commencement of operations) to May 31, 2013.

12 Financial instrument risk

The Fund's activities expose it to a variety of financial risks. The Manager may invest in derivatives for the purpose of hedging interest rate exposure. The Manager also invests in foreign currency forward contracts to hedge the Fund's Class U foreign exchange risk exposure.

Credit risk

The Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt and debt-like securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of these investments and the unrealized gain (loss) on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at May 31, 2014 and 2013.

The Fund is also exposed to the credit risk of the Lender, whose S&P credit rating as of May 31, 2014 and 2013 was A+.

The table below summarizes the Fund's exposure to credit risk as of May 31, 2014 and 2013. Amounts shown are based on the carrying value of debt investments and the unrealized gain (loss) on derivative instruments outstanding with counterparties.

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May 31, 2014

May 31, 2014	
Rating	(% of Net Assets)
AA-	0.2%
BBB-	2.3%
BB+	1.0%
BB	3.9%
BB-	13.4%
B+	41.4%
B	45.4%
B-	14.2%
CCC+	19.7%
CCC	3.4%
CC	0.5%
Not rated	2.8%
Total	148.2%

May 31, 2013	
Rating	(% of Net Assets)
AA-	10.3%
BBB-	0.7%
BB+	5.4%
BB	7.4%
BB-	15.5%
B+	39.4%
B	40.6%
B-	16.4%
CCC+	22.8%
CCC	4.6%
Not rated	4.0%
Total	167.1%

As at May 31, 2014 and 2013, no debt securities were contractually past due and no longer meeting interest payment obligations.

All transactions are over the counter and settled or paid for upon delivery using approved loan agent banks. The risk of 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 obligations.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as term loans and short-term notes. Since the Senior Loans held in the Fund are floating rate instruments with a short duration, changes in the prevailing levels of market interest rates are not expected to have a significant impact on the net assets of the Fund but since the loans have a base rate of LIBOR, the yield to the fund will change as LIBOR fluctuates. As at May 31, 2014 and 2013, interest rate risk was minimal.

Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the functional currency of the Fund, which is the Canadian dollar ("CAD"). Both the Class A and Class U Units are exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. The Statement of Investment Portfolio identifies all securities denominated in foreign currencies.

The table below summarizes the Fund's exposure to foreign currencies as at May 31, 2014 and 2013. The table shows sensitivity evaluation due to exposure to the U.S. dollar for the Class A Units only (the Class U Units are denominated in U.S. dollars). The amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as forward contracts. Other financial assets and liabilities denominated in foreign currencies do not expose the Fund to significant currency risk. The table below summarizes the significant exposure to foreign currencies and the approximate impact on net assets had the functional currency of each class of units weakened by 5% in relation to these currencies. If the functional currency were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Class A Units (May 31, 2014):

	Monetary instruments	Non-monetary instruments	Derivative instruments	Net Exposure	% of Net Assets	Sensitivity (based on devaluation of CAD)
	\$	\$	\$	\$		\$
U.S. dollar	145,109,283	-	(144,984,697)	124,586	0.0%	6,000

Class A and Class U Units (May 31, 2014):

	Monetary instruments	Non-monetary instruments	Derivative instruments	Net Exposure	% of Net Assets	Sensitivity (based on devaluation of CAD)
	\$	\$	\$	\$		\$
Euro dollar	6,587,455	-	(6,541,153)	46,302	0.0%	2,000

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Class A Units (May 31, 2013):

	Monetary instruments \$	Non-monetary instruments \$	Derivative instruments \$	Net Exposure \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
U.S. dollar	140,258,931	–	(140,148,359)	110,572	0.1%	6,000

Liquidity risk

Liquidity risk is the risk of not being able to meet the Fund's cash requirements in a timely manner and includes the risk of not being able to liquidate assets at reasonable prices. This risk arises mainly from the Fund's exposure to unlimited annual redemptions in any given year. The Fund invests the majority of its assets in investments that can be readily disposed of. In addition, the Fund retains sufficient cash positions to maintain liquidity. All liabilities are due within three months. The table below summarizes the maturity dates of the financial instruments held in the Fund.

May 31, 2014

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Total
Term loans	–	8,366,595	65,658,605	176,401,404	250,426,604
Foreign currency forward contracts	395,631	–	–	–	395,631
Total	395,631	8,366,595	65,658,605	176,401,404	250,822,235

May 31, 2013

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Total
Term loans	–	18,942,462	74,968,583	151,402,319	245,313,364
Short-term investments	18,406,484	–	–	–	18,406,484
Foreign currency forward contracts	(2,466,563)	–	–	–	(2,466,563)
Total	15,939,921	18,942,462	74,968,583	151,402,319	261,253,285