



# **Aston Hill Oil & Gas Income Fund**

**Semi-Annual Management Report of Fund Performance**

**June 30, 2015**

## MANAGEMENT REPORT OF FUND PERFORMANCE

This semi-annual management report of fund performance for **Aston Hill Oil & Gas Income Fund** (the “Fund”) contains financial highlights but does not contain the complete semi-annual financial statements of the Fund.

You can obtain a copy of the semi-annual financial statements at no cost by writing to Aston Hill Asset Management Inc. (the “Manager”) to the following address: 77 King Street West, Suite 2110, Toronto, Ontario M5K 1G8, or calling 1-800-513-3868 or visiting the Manager’s website at [www.astonhill.ca](http://www.astonhill.ca) or by visiting [www.sedar.com](http://www.sedar.com).

Security holders 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.

### INVESTMENT OBJECTIVES AND STRATEGIES

Aston Hill Oil & Gas Income Fund is a closed-end investment trust that is managed by Aston Hill Asset Management Inc. (the “Manager”). The units of the Fund trade on the Toronto Stock Exchange (“TSX”) under the symbol OGF.UN. The Fund is RRSP, DPSP, RRIF, RESP and TFSA eligible.

The investment objectives of the Fund are designed to achieve a high level of monthly distributions and the opportunity for capital appreciation by investing in a diversified portfolio of oil and gas investments, including oil-and-gas dividend-paying equities and convertible debt of oil and gas producers, energy service companies and pipelines.

### RISK

Risks associated with an investment in the units of the Fund are discussed in the Fund’s 2014 annual information form, which is available on the Manager’s website at [www.astonhill.ca](http://www.astonhill.ca) or on SEDAR at [www.sedar.com](http://www.sedar.com). There were no changes to the Fund for year ended December 31, 2014 that materially affected the risks associated with an investment in the units of the Fund.

### 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.

#### Manager Commentary (July 2015)

Oil prices started the year by continuing the selloff that started in late November after OPEC (“Organization of the Petroleum Exporting Countries”) decided not to cut production quotas. This of course impacted energy stocks negatively, especially the junior oil and gas companies. Oil then rallied, along with other commodities and stock markets, after the ECB (“European Central Bank”) launched their own version of QE. But this was short lived as concerns about over supply and when US production would actually decline started to creep back into the markets. WTI (“West Texas Intermediate”) hit a low of \$42 in March and then bounced off that to rally into April at \$60. This pulled the energy stocks along hitting a high for the year in mid-April.

Then the unexpected happened, the NDP (“New Democratic Party”) won the Alberta election and panic among Canadian energy investors set in. Investors sold oil and gas stocks even though oil prices were relatively stable, as concerns mounted the new NDP government would increase taxes and royalties on oil & gas production.

The declines just continued into June as investors looked like they were giving up on the energy sector in Canada.

#### Capital transactions

During the six-month period ended June 30, 2015, there were no warrants exercised (there were 5,792,027 units issued upon exercise of warrants during the same period ended 2014) and \$463,236 solicitation fees paid to dealers). There were no units redeemed during the six-month period ended (2,000 units redeemed for \$10,021 - 2014).

#### Market repurchases

Units of the Fund are listed on the TSX under the symbol OGF.UN. The Trust Agreement provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager’s assessment that such purchases are accretive to Unitholders, in all cases at a price per Unit not exceeding the most recently calculated Net Asset Value per Unit immediately prior to the date of any such purchase of Units.

The Fund did not purchase any Units for cancellation during the six-month periods ended June 30, 2015 and 2014.

**Net Assets**

The Net Asset Value per unit of the Fund was \$3.05 per unit as at June 30, 2015 (\$3.13 at December 31, 2014). The aggregate Net Asset Value of the Fund was \$29.66 million as at June 30, 2015 (\$30.42 million at December 31, 2014).

**LEVERAGE**

Pursuant to an agreement with a Canadian chartered bank, the Fund maintains a 364-day revolving credit facility. The revolving credit facility provides for maximum borrowings of \$16.0 million (2014 – \$16.0 million), with borrowings in Canadian currency at either the prime rate of interest or the bankers' acceptance rate, plus a fixed percentage, or in US currency at either the US base rate or the LIBOR rate, plus a fixed percentage. There were \$nil borrowings outstanding under this facility as at June 30, 2015 (December 31, 2014 – 7,995,507). The credit facility is secured by a first-priority security interest over all of the Fund's assets. During the six-month period ended June 30, 2015, the minimum and maximum amounts of borrowings were nil and \$7,995,507 (during the year ended December 31, 2014 – nil and \$10,000,000), respectively.

**DISTRIBUTIONS**

The Fund pays monthly distributions at \$0.0225 per unit, representing an approximate 8.85% annual yield based on June 30, 2015 Net Assets values per unit. For the six-month period ended June 30, 2015, the Fund has paid distributions of \$0.135 per unit (unchanged from 2014). Since inception in October 7, 2004, the Fund has paid total cash distributions of \$7.56 per unit.

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. For the six-month period ended June 30, 2015, the Fund declared total distributions of \$0.135 (June 30, 2014 – \$0.135) per unit, which amounted to \$1,312,037 (June 30, 2014 – \$1,734,916).

The distribution reinvestment plan was cancelled in January 2014 due to low participation.

**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 six-month period ended June 30, 2015.

**RELATED PARTY TRANSACTIONS****Management Fees and Service Fees**

Pursuant to a management agreement, the Fund pays a management fee to the Manager equal to 0.85% per annum of the Net Asset Value of the Fund, plus applicable taxes. The Fund also pays a service fee equal to 0.40% per annum of the Net Asset Value. The service fee, plus applicable taxes, is in turn paid by the Manager to investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

For the six-month period ended June 30, 2015, the management fee amounted to \$140,725 (June 30, 2014 - \$334,944; the service fees amounted to \$59,650 (June 30, 2014 - \$176,469). The Fund is responsible for all other operating expenses incurred in connection with its operation and administration, such as custodian, valuation, trustee, reporting, audit and legal fees.

**Administration Fees**

The Manager allocates back to the Fund a portion of the base salaries and overhead expenses of individuals who have spent time working on matters relating to the operations of the Fund. The expenses are directly attributable to the Fund as they relate to time spent on Fund accounting, valuation, taxation, compliance, investor relations, financial reporting and unitholder reporting cost management, oversight and any other operations matter. For the six-month period ended June 30, 2015, administration fees amounted to \$16,960 (June 30, 2014 - \$24,376).

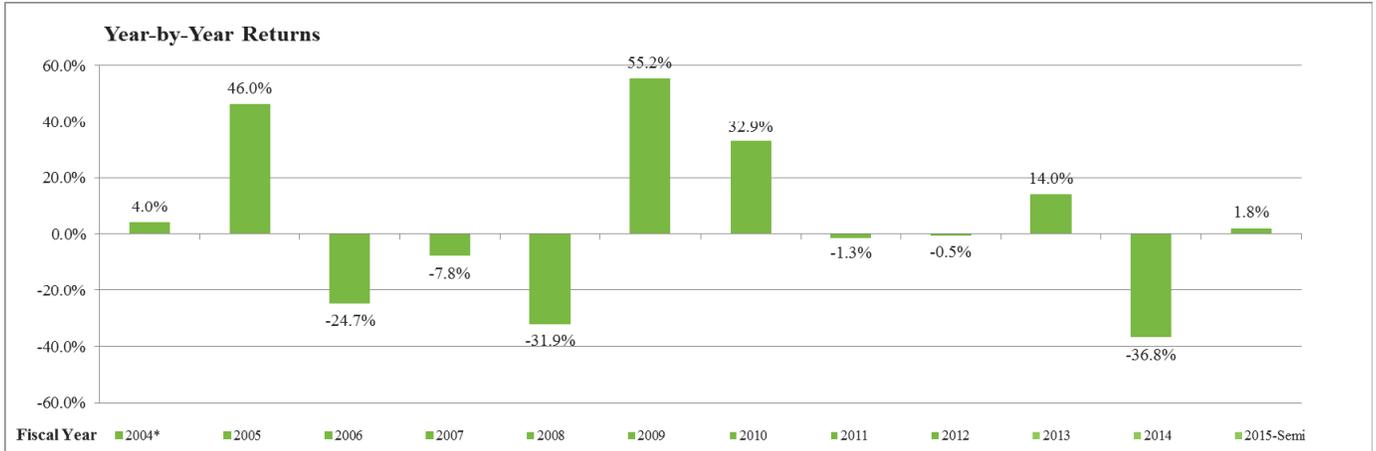
**IRC Fee**

The members of the Independent Review Committee are John Crow (chair), Joseph Wright, Robert B. Falconer and Scott Browning. The Independent Review Committee acts as a review committee for a number of investment funds managed by the Manager and its affiliates.

The IRC members each receive \$15,000 per annum (\$20,000 for the Chairman) plus \$1,250 per meeting for acting in such capacity and are also reimbursed for expenses in connection with performing their duties. These fees and expense reimbursements are allocated across investment funds that are managed by the Manager in a manner that is fair and reasonable.

## PAST PERFORMANCE

The following bar charts show the Fund’s semi-annual and annual performance by showing both annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the Fund during the years 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.



\*Period from October 7, 2004 (commencement of operations) to December 31, 2004

## 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 and unaudited semi-annual financial statements:

### Net Assets per Unit

	2015 <sup>(1)</sup>	2014	2013	2012	2011
<b>Net Assets, beginning of period</b> <sup>(2)</sup>	<b>3.13</b>	<b>5.24</b>	<b>4.85</b>	<b>5.26</b>	<b>5.94</b>
<b>Increase (decrease) from operations:</b>					
Total revenues	0.06	0.26	0.24	0.25	0.23
Total expenses	(0.04)	(0.10)	(0.09)	(0.09)	(0.09)
Realized gains (losses) for the period	(1.44)	(0.09)	0.23	(0.11)	0.07
Unrealized gains (losses) for the period	1.48	(1.25)	0.27	(0.12)	(0.44)
<b>Total increase (decrease) from operations</b> <sup>(3)</sup>	<b>0.06</b>	<b>(1.18)</b>	<b>0.65</b>	<b>(0.07)</b>	<b>(0.23)</b>
<b>Distributions:</b>					
From income	(0.03)	(0.05)	–	–	–
From Dividend	–	(0.22)	(0.08)	(0.09)	(0.05)
Return of capital	(0.11)	–	(0.19)	(0.29)	(0.37)
<b>Total Distributions</b> <sup>(1)(4)</sup>	<b>(0.14)</b>	<b>(0.27)</b>	<b>(0.27)</b>	<b>(0.38)</b>	<b>(0.42)</b>
<b>Net Assets, end of period</b> <sup>(5) (6)</sup>	<b>3.05</b>	<b>3.13</b>	<b>5.24</b>	<b>4.85</b>	<b>5.27</b>

(1) Results are for the six-month period ended June 30, 2015.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time.

(3) The increase (decrease) in Net Assets from operations per unit are based on the weighted average number of units outstanding over the fiscal period.

(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on the Fund's tax return. Allocation for the six-month period ended June 30, 2015 are not determinable until year end.

(5) This is not intended to be a reconciliation between the opening and the closing Net Assets balances.

(6) The Fund adopted International Financial Reporting Standards ("IFRS") commencing January 1, 2014. This information for the period January 1, 2013 to December 31, 2014 is restated under IFRS from Canadian GAAP. Information for periods prior to January 1, 2013 continues to be reported under Canadian GAAP.

### Ratios and Supplemental Data

	2015 <sup>(1)</sup>	2014	2013	2012	2011
Net Assets (000's)	29,656	30,421	60,674	77,793	93,303
Number of units outstanding (in 000's)	9,719	9,719	11,584	16,045	17,700
Base management expense ratio <sup>(2)</sup>	1.70%	1.62%	1.55%	1.55%	1.50%
Management expense ratio ("MER") <sup>(3)</sup>	1.86%	1.81%	1.65%	1.65%	1.59%
Trading expense ratio <sup>(4)</sup>	0.53%	0.16%	0.07%	0.12%	0.03%
Portfolio turnover rate <sup>(5)</sup>	49.20%	56.28%	15.72%	38.10%	57.03%
Net Asset per unit <sup>(6)</sup>	3.05	3.13	5.24	4.85	5.27
Net Asset per unit – basic and diluted	3.05	3.13	5.24	4.85	5.27
Closing market price (TSX)	2.94	3.47	5.01	4.62	5.08
Closing market price - warrants	N/A	N/A	0.02	N/A	N/A

(1) Results are for the six-month period ended June 30, 2015.

(2) A separate base management expense ratio is presented to exclude interest expenses and issuance cost.

(3) MER is based on the requirements of NI 81-106 and includes the total expenses (excluding commissions and other portfolio transaction cost) of the Fund for the stated period, including interest expense and issuance costs, if applicable, and is expressed as an annualized percentage of daily average net asset value during the period.

(4) 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.

(5) 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.

(6) The Fund adopted International Financial Reporting Standards ("IFRS") commencing January 1, 2014. Information for periods prior to January 1, 2013 continues to be reported under Canadian GAAP.

## SUMMARY OF INVESTMENT PORTFOLIO AS OF MAY 31, 2015

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at [www.astonhill.ca](http://www.astonhill.ca) and at [www.sedar.com](http://www.sedar.com).

### Portfolio by Category

As at June 30, 2015

Sector Allocation	% of NAV
Energy	52.7%
Short-term Notes	30.3%
Cash	21.0%
Net Other Assets (Liabilities)	-4.0%
<b>Total</b>	<b>100.0%</b>

### Top 25 Holdings

Security Name	% of NAV
Short-term Notes	30.3%
Cash	21.0%
ARC Resources Ltd.	4.5%
Vermilion Energy Inc.	4.2%
Whitecap Resources Inc.	3.9%
Peyto Exploration and Development Corp.	3.8%
Newalta Corp.	3.2%
Secure Energy Services Inc.	3.1%
Gibson Energy Inc.	3.0%
TransCanada Corp.	2.8%
Cardinal Energy Ltd.	2.4%
PrairieSky Royalty Ltd.	2.2%
Bonavista Energy Corp.	2.2%
Mullen Group Ltd.	2.2%
Canadian Energy Services & Technology Corp.	2.1%
Seven Generations Energy Ltd.	1.8%
Anadarko Petroleum Corp.	1.5%
Inception Exploration Ltd.	1.4%
Phillips 66	1.1%
Calfrac Well Services Ltd.	1.0%
Helmerich & Payne Inc.	1.0%
EOG Resources Inc.	1.0%
Precision Drilling Corp.	0.8%
Relentless Resources Ltd.	0.8%
Williams Cos. Inc.	0.6%
<b>Total Net asset value (NAV):</b>	<b>\$29,656,024</b>