



**AUDITED FINANCIAL STATEMENTS**  
BLUMONT CANADIAN FUND

**DECEMBER 2009**





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## **MANAGEMENT'S STATEMENT ON FINANCIAL REPORTING**

BluMont Capital Corporation (the "Manager") is responsible for the accompanying financial statements and all information in this report. The financial statements have been approved by the Board of Directors of the Manager. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's judgment and best estimates.

Management has established systems of internal control that provide assurance that assets are safeguarded from loss or unauthorized use and produce reliable accounting records for the preparation of financial information. The systems of internal controls meet management's responsibilities for the integrity of the financial statements.

The Board of Directors of the Manager meets with management and the auditors to discuss the Fund's financial reporting and internal control. The Board of Directors reviews the results of the audits by the auditors and their audit report. The external auditors have unrestricted access to the Board of Directors.

The Manager recognizes its responsibility to conduct the Fund's affairs in the best interest of its unitholders.

Respectfully,

"Victor Koloshuk"

President and Chief Executive Officer  
BluMont Capital Corporation  
March 26, 2010

## AUDITORS' REPORT

TO THE UNITHOLDERS OF BLUMONT CANADIAN FUND (THE "FUND")

We have audited the statement of investments and other net assets of the Fund as at December 31, 2009, the statements of net assets as at December 31, 2009 and 2008 and the statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Trustee and the Manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants, Licensed Public Accountants  
Toronto, Canada  
March 26, 2010

**STATEMENT OF NET ASSETS**  
As at December 31,

**BLUMONT CANADIAN FUND**

	2009	2008
<b>ASSETS</b>		
Long positions at fair value*		
Canadian equities	\$ 15,010,344	\$ 5,672,810
U.S. equities	640,785	671,868
Global equities	<u>98,400</u>	<u>129,070</u>
	15,749,529	6,473,748
Cash and broker deposits	1,518,944	6,744,743
Accrued investment income	<u>20,235</u>	<u>24,621</u>
Total Assets	<u>17,288,708</u>	<u>13,243,112</u>
<b>LIABILITIES</b>		
Short positions at fair value**		
Canadian equities	-	439,190
U.S. equities	<u>-</u>	<u>264,826</u>
	-	704,016
Accounts payable:		
Fees and operating expenses	39,186	31,019
Dividends payable	-	826
Payable for investment purchases	91,121	-
Redemptions payable	<u>21,075</u>	<u>205</u>
Total Liabilities	<u>151,382</u>	<u>736,066</u>
<b>NET ASSETS REPRESENTING UNITHOLDERS' EQUITY</b>	<u>\$ 17,137,326</u>	<u>\$ 12,507,046</u>
<b>NUMBER OF UNITS OUTSTANDING (Note 4)</b>	<u>942,323</u>	<u>809,284</u>
<b>NET ASSETS PER UNIT</b>	<u>\$ 18.19</u>	<u>\$ 15.45</u>
*Long positions, at cost	<u>\$ 13,718,107</u>	<u>\$ 9,227,792</u>
**Proceeds on short positions	<u>\$ -</u>	<u>\$ (752,067)</u>

Approved by the Board of Directors of BluMont Capital Corporation

“Veronika Hirsch”

\_\_\_\_\_  
Veronika Hirsch  
Director

“Stephen Johnson”

\_\_\_\_\_  
Stephen Johnson  
Director

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

**STATEMENT OF OPERATIONS**

Year ended December 31,

**BLUMONT CANADIAN FUND**

	2009	2008
<b>INVESTMENT INCOME</b>		
Dividends	\$ 166,369	\$ 185,732
Less: Foreign withholding taxes	<u>1,140</u>	<u>2,369</u>
	165,229	183,363
Interest	<u>15,478</u>	<u>139,775</u>
	<u>180,707</u>	<u>323,138</u>
<b>EXPENSES (Notes 6 and 7)</b>		
Management fees	246,375	370,945
Operating expenses	190,487	198,731
Dividends paid on investments sold short	11,922	7,862
Audit fees	31,322	25,528
Legal fees	34,017	8,978
Securityholders' reporting costs	35,430	-
Custodian and Trustees' fees	595	5,516
Interest expense	<u>237</u>	<u>2,351</u>
	550,385	619,911
Less: Expenses absorbed by the Manager	<u>181,668</u>	<u>123,701</u>
	<u>368,717</u>	<u>496,210</u>
<b>NET INVESTMENT LOSS</b>	<u>(188,010)</u>	<u>(173,072)</u>
<b>NET REALIZED (LOSS) GAIN ON INVESTMENT TRANSACTIONS</b>	(2,027,812)	2,721
<b>TRANSACTION COSTS (Note 2(II) and 7)</b>	(59,245)	(58,313)
<b>NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS</b>	4,737,415	(6,801,621)
<b>EXCHANGE (LOSS) GAIN ON FOREIGN CURRENCIES AND OTHER NET ASSETS</b>	<u>(29,667)</u>	<u>226,775</u>
<b>NET GAIN (LOSS) ON INVESTMENTS AND TRANSACTION COSTS</b>	<u>2,620,691</u>	<u>(6,630,438)</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	<u>\$ 2,432,681</u>	<u>\$ (6,803,510)</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT (Note 2(VII))</b>	<u>\$ 2.95</u>	<u>\$ (7.94)</u>

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

**STATEMENT OF CHANGES IN NET ASSETS**  
Year ended December 31,

**BLUMONT CANADIAN FUND**

	2009	2008
<b>Net Assets, Beginning of Period</b>	\$ <u>12,507,046</u>	\$ <u>20,416,558</u>
<b>Net Increase (Decrease) in Net Assets from Operations</b>	<u>2,432,681</u>	<u>(6,803,510)</u>
<b>From Capital Unit Transactions: (Note 4)</b>		
Proceeds from issue of units	958,956	1,285,655
Units issued upon fund merger (Note 1)	3,683,358	-
Consideration paid for redemptions of units	<u>(2,444,715)</u>	<u>(2,391,657)</u>
	<u>2,197,599</u>	<u>(1,106,002)</u>
<b>Net Assets, End of Period</b>	\$ <u>17,137,326</u>	\$ <u>12,507,046</u>

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

**BLUMONT CANADIAN FUND**  
**STATEMENT OF INVESTMENTS AND OTHER NET ASSETS**  
As at December 31, 2009

	Number of Shares		Average Cost		Fair Value	% of Total Net Assets
<b>Canadian Equities</b>						
<b>Energy</b>						
Aztek Energy Limited Subscription Receipts <sup>2</sup>	500,000	\$	85,000	\$	177,500	
Baytex Energy Trust	8,000		205,352		236,240	
Birchcliff Energy Limited	30,000		218,394		282,000	
Canadian Natural Resources Limited	5,000		308,943		378,250	
Legacy Oil + Gas Inc.	13,933		141,292		133,896	
Nexen Inc.	10,000		265,454		251,400	
Pacific Rubiales Energy Corporation	15,000		157,915		231,000	
Pason Systems Inc.	8,200		89,846		95,284	
Petrobank Energy and Resources Limited	8,000		334,159		408,000	
Progress Energy Resources Corporation	15,000		180,131		210,450	
Talisman Energy Inc.	14,000		254,964		273,700	
West Energy Limited	10,200		40,290		39,372	
WesternZagros Resources Limited	80,000		143,450		61,600	
			2,425,190		2,778,692	16.2
<b>Basic Materials</b>						
Agrium Inc.	4,000		271,616		258,800	
Anvil Mining Limited	50,000		142,293		159,500	
Banro Corporation	25,000		56,235		50,500	
Centamin Egypt Limited	132,000		175,379		269,280	
Detour Gold Corporation	39,000		184,971		694,590	
Dundee Precious Metals Inc.	140,000		447,580		501,200	
Dundee Precious Metals Inc. Warrants	150,000		197,700		207,000	
Eastern Platinum Limited	250,000		197,880		230,000	
HudBay Minerals Inc.	2,000		25,840		27,000	
International Tower Hill Mines Limited	29,900		126,243		220,363	
Ivanhoe Mines Limited	6,000		65,833		92,220	
Labrador Iron Ore Royalty Trust	8,200		350,662		355,962	
Lundin Mining Corporation	32,000		121,698		136,320	
Mirabela Nickel Limited	40,000		111,440		94,000	
New Gold Inc.	14,000		53,133		52,920	
Osisko Mining Corporation	32,000		222,410		269,760	
Polaris Minerals Corporation	190,000		330,369		319,200	
Potash Corporation of Saskatchewan Inc.	2,100		261,003		239,631	
Potash One Inc.	29,500		81,691		74,635	
Premier Gold Mines Limited	15,000		38,250		62,400	
Red Back Mining Inc.	6,300		94,181		93,555	
Romarco Minerals Inc.	64,000		59,220		107,520	
San Gold Corporation	40,000		103,410		145,600	

	Number of Shares	Average Cost	Fair Value	% of Total Net Assets
<b>Basic Materials cont'd</b>				
Silver Wheaton Corporation	10,000	\$ 127,940	\$ 157,800	
Yamana Gold Inc.	12,000	167,640	143,280	
iShares CDN S&P/TSX Global Gold Index Fund	5,000	110,470	103,750	
		4,125,087	5,066,786	29.6
<b>Industrials</b>				
ATS Automation Tooling Systems Inc.	80,000	427,914	597,600	
Rocky Mountain Dealership Inc.	40,000	244,305	360,800	
Russel Metals Inc.	15,000	259,369	264,750	
The Churchill Corporation 'A'	16,900	331,306	323,635	
		1,262,894	1,546,785	9.0
<b>Consumer Discretionary</b>				
Cineplex Galaxy Income Fund	6,900	111,294	125,718	
Gildan Activewear Inc.	1,000	23,230	25,560	
		134,524	151,278	0.9
<b>Consumer Staples</b>				
Metro Inc. 'A'	10,000	293,438	391,700	2.3
<b>Health Care</b>				
IMRIS Inc.	50,000	280,000	260,000	
Paladin Labs Inc.	20,000	356,359	393,800	
		636,359	653,800	3.8
<b>Financials</b>				
CI Financial Corporation	12,800	274,423	279,808	
Canadian Western Bank	16,500	370,322	361,350	
GMP Capital Inc.	29,000	358,978	364,240	
Gluskin Sheff + Associates Inc.	12,000	181,839	246,600	
Royal Bank of Canada	6,500	365,346	366,275	
		1,550,908	1,618,273	9.4
<b>Information Technology</b>				
CGI Group Inc. 'A'	15,000	179,277	213,000	
Computer Modelling Group Limited	10,000	154,783	149,400	
DragonWave Inc.	22,000	162,325	264,000	
Redknee Solutions Inc.	250,000	259,650	250,000	
Research In Motion Limited	6,500	575,959	461,110	
SXC Health Solutions Corporation	1,500	35,310	85,050	
The Descartes Systems Group Inc.	32,900	182,967	207,270	
		1,550,271	1,629,830	9.5

	Number of Shares	Average Cost	Fair Value	% of Total Net Assets
<b>Telecommunication Services</b>				
BCE Inc.	20,000	\$ 510,302	\$ 578,800	
COM DEV International Limited	90,000	281,550	307,800	
		791,852	886,600	5.2
<b>Utilities</b>				
Fortis Inc.	10,000	251,910	286,600	1.7
<b>Total Canadian Equities - Long</b>		<b>13,022,433</b>	<b>15,010,344</b>	<b>87.6</b>
<b>U.S. Equities</b>				
<b>Consumer Discretionary</b>				
SPDR S&P Retail ETF	8,000	294,355	298,355	1.7
<b>Information Technology</b>				
Semiconductor HOLDRs Trust	12,000	328,899	342,430	2.0
<b>Total U.S. Equities - Long</b>		<b>623,254</b>	<b>640,785</b>	<b>3.7</b>
<b>Global Equities</b>				
<b>Australia</b>				
Andean Resources Limited	41,000	97,244	98,400	0.6
<b>Total Global Equity - Long</b>		<b>97,244</b>	<b>98,400</b>	<b>0.6</b>
<b>Total Long Positions Including Transaction Costs</b>		<b>13,742,931</b>	<b>15,749,529</b>	<b>91.9</b>
Transaction costs		(24,824)	-	-
<b>TOTAL INVESTMENT PORTFOLIO</b>		<b>\$ 13,718,107</b>	<b>15,749,529</b>	<b>91.9</b>
Other Assets Net of Liabilities <sup>1</sup>			1,387,797	8.1
<b>TOTAL NET ASSETS REPRESENTING UNITHOLDERS' EQUITY</b>			<b>\$ 17,137,326</b>	<b>100.0</b>

<sup>1</sup>This amount is comprised of cash and short-term investments plus accrued investment income less accounts payable.

<sup>2</sup> Private and illiquid securities.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**1. THE FUND**

**(I) The Fund**

BluMont Canadian Fund (the "Fund") is an unincorporated open-ended mutual fund trust created under the laws of the Province of Ontario pursuant to a declaration of trust dated November 8, 2007, as amended from time to time (the "Declaration of Trust").

BluMont Capital Corporation ("BluMont Capital") is the manager (the "Manager") and trustee (the "Trustee") of the Fund.

**(II) Fund Merger**

Effective October 28, 2009, BluMont North American Fund ("North American Fund") was merged with the Fund. The Manager afforded unitholders of the North American Fund the ability to participate in the wind-up of the North American Fund by way of an in-kind transfer of their investment to the Fund. The termination of the North American Fund did not occur on a tax-deferred basis.

Details relating to the merger are as follows:

Net assets acquired by the Fund	\$3,683,358
Units issued by the Fund	220,756

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are presented in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

A summary of the significant accounting policies is summarized below.

**(I) Adoption of New Accounting Policies – Amendment to Section 3862, Financial Instruments – Disclosure**

The Canadian Institute of Chartered Accountants' ("CICA") has issued amendments to CICA 3862, "Financial Instruments – Disclosures" to align with International Financial Reporting Standards ("IFRS") 7, "Financial Instruments – Disclosures". The amendments require all financial instruments measured at fair value to be classified into one of three levels that distinguish fair value measurements by the inputs used for valuation (as further discussed in Note 3(vi)). The amendments are effective for annual financial statements relating to fiscal years ending after September 30, 2009. The Fund adopted these amendments effective December 31, 2009. Please refer to Note 3 for specific Fund disclosure.

Adoption of the new standards did not impact the daily price of the Fund's securities for subscription and redemption purposes, nor for the calculation of Net Assets.

**(II) Valuation of Investments**

Investments are recorded in the accounts at their fair value, determined as follows:

The fair value of financial instruments which are actively traded, are measured based on the bid price for long positions and ask price for short positions. Prior to

January 1, 2007, fair value for GAAP was based on the last traded price for the day, when available.

A reconciliation as at December 31 between the Fund's net assets per unit for financial reporting ("Net Assets") and the Fund's net asset value for purposes other than financial reporting, such as subscriptions and redemptions, ("Net Asset Value") has been provided in Note 8. The Fund continues to use the last traded price for investments and securities sold short for Net Asset Value valuations.

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund are charged to net increase (decrease) in net assets from operations in the period. Accordingly, these costs are expensed and are included in "Transaction Costs" in the Statement of Operations.

Securities listed upon a recognized public stock exchange are valued at their bid/ask prices on the financial statement date. Securities with no bid/ask prices are valued at their closing sale prices. Securities not listed upon a recognized public stock exchange are valued using valuation techniques, on such basis and in such manner established by the Manager.

Short-term investments including notes and money market instruments are carried at fair value.

The difference between fair value and the average cost is shown as the net change in unrealized appreciation (depreciation) of investments.

When the Fund sells a security short, it will borrow that security from a broker to complete the sale. The Fund will incur a loss as a result of a short sale if the price of the borrowed security increases between the date of the short sale and the date on which the Fund closes out its short position by buying that security. The Fund will realize a gain if that security declines in price between those dates.

The maximum gain that the Fund can realize on a short position is the proceeds received, while the loss that could be realized is unlimited.

There can be no assurance that the Fund will be able to close out a short position at an acceptable time or price. Until the Fund replaces a borrowed security it will maintain a margin account with a broker containing cash and liquid securities.

Short positions are valued based on the cost that would be incurred to close out the position at the last ask price as of every Valuation Day (as defined below).

**(III) Investment Transactions and Income Recognition**

Investment transactions are accounted for as of the trade date. Income and expenses are recorded on an accrual basis. Dividend income and expense is recorded on the ex-dividend date. Interest income and expense is recorded daily as it is earned or accrued. Realized gains and losses from security transactions are calculated using the average cost basis.

**(IV) Valuation of Fund Units**

The Fund's units are issued and redeemed at the Net Asset Value per unit, which is determined as of the close of Valuation Day. A "Valuation Day" is any day that the Toronto Stock Exchange is open for business or such other trading day or days as the Manager may determine.

The Net Asset Value per unit of the Fund is determined by dividing the total market value of the Fund's Net Asset Value by the number of units outstanding.

For each Fund unit sold, the Fund receives an amount equal to the Net Asset Value per unit on the date of sale, which is included in unitholders' equity. Units

are redeemable at the option of the unitholders at their Net Asset Value on any Valuation Day. For each unit redeemed, the number of issued and outstanding units is reduced and the equity in the Fund is reduced by the related Net Asset Value on the date of redemption.

**(V) Foreign Currency Translation**

Assets, including fair value of investments and liabilities denominated in foreign currencies, are converted to Canadian dollars at the rates of exchange established on each Valuation Day.

Purchases and sales of investments, dividends and interest income and expense denominated in foreign currencies are converted into Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions.

Realized exchange gains (losses) on investments are included in “Net Realized Gain (Loss) on Investment Transactions” in the Statement of Operations.

Unrealized exchange gains (losses) on investments are included in “Net Change in Unrealized Appreciation (Depreciation) of Investments” in the Statement of Operations.

Realized and unrealized exchange gains (losses) on assets (other than investments), liabilities and investment income denominated in foreign currencies are included in “Exchange Gain (Loss) on Foreign Currencies and Other Net Assets” in the Statement of Operations.

**(VI) Use of Estimates**

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of certain assets and liabilities and disclosure of contingent liabilities, at the date of the financial statements, and the reported amounts of certain revenue and expenses during the period. Actual results could differ from these estimates.

**(VII) Increase (Decrease) in Net Assets from Operations Per Unit**

Increase (Decrease) in Net Assets from Operations per Unit amount is determined by dividing the Net Increase (Decrease) in Net Assets from Operations by the average number of units outstanding during the period.

**3. FINANCIAL INSTRUMENTS RISK MANAGEMENT**

In accordance with CICA Handbook Section 3862, “Financial Instruments – Disclosure” and Section 3863, “Financial Instruments – Presentation”, the Fund provides comprehensive disclosure and presentation of risks associated with financial instruments and how those risks are managed.

In the normal course of business, the Fund is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk) that could result in a reduction in the value of the Fund’s Net Asset Value. The value of investments within the Fund’s portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions and market and company news related to specific securities within the Fund.

The investment objective of the Fund is to achieve superior capital appreciation over both short and long-term horizons primarily by investing in Canadian equity securities. The Fund may invest in companies of any capitalization size.

The Fund may invest in bonds and other debt instruments from time to time, if determined to be appropriate by the Manager. The Fund will not specialize in any one industry other than to concentrate investments in those industries that the Manager believes offer the best opportunities for exceptional returns at each stage of the economic and market cycle. At the discretion of the portfolio advisor, the Fund may also invest in options, including put options (i.e. the option to sell) or call options (i.e. the option to purchase) either in respect of a specific security or in respect of a stock exchange index as a means to reduce volatility. The Fund also has the ability to take short positions, in total not exceeding 20% of the Net Asset Value of the Fund.

The Fund's overall risk management program seeks to minimize the potentially adverse effect of risk on the Fund's financial performance in a manner consistent with the Fund's investment objective. The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced investment advisors that monitor the Fund's investments and market events on a daily basis.

**(I) Credit Risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with a fund.

Where the Fund invests in debt instruments and derivatives, this represents the main concentration of credit risk. The market value of debt instruments and derivatives includes consideration of the credit worthiness of the issuer, and accordingly, represents the maximum credit risk exposure of the Fund.

All transactions executed by the Fund in listed securities are settled/paid for upon delivery using approved brokers. 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 obligation.

As at December 31, 2009, and December 31, 2008, the Fund had no investments in debt instruments and/or derivatives, and therefore was not subject to related credit risk.

**(II) Liquidity Risk**

Liquidity risk is defined as the risk that a fund may not be able to settle or meet its obligation on time or at a reasonable price.

The Fund is exposed to daily cash redemptions of redeemable units. The units of the Fund are issued and redeemed daily at the Fund's Net Asset Value per unit at the option of the unitholder.

Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed. In accordance with securities regulations, the Fund must maintain at least 90% of assets in liquid investments (i.e. investments that are traded in an active market and can be readily disposed of). In addition, the Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity, and has the ability to borrow up to 5% of its Net Asset Value for the purpose of funding redemptions.

The Fund may, from time to time, invest in securities that are not traded in an active market and may be illiquid. Such investments are identified as private and restricted securities in the Fund's Statement of Investments and Other Net Assets.

The Fund may employ the use of derivatives to moderate certain risk exposures. There is no guarantee that a market will exist for some derivatives and it is possible that the exchanges may impose limits on trading of derivatives.

The following table outlines cash flows associated with the maturities of the Fund's financial assets and liabilities as of:

**December 31, 2009**

	Less than 1 year (\$)	1 - 3 years (\$)	3 - 5 years (\$)	No maturity date (\$)
<b>Financial Assets</b>				
Equities - long	-	-	-	15,749,529
Other receivables	20,235	-	-	-
Cash and cash equivalents	1,518,944	-	-	-
<b>Total</b>	<b>1,539,179</b>	-	-	<b>15,749,529</b>
<b>Liabilities</b>				
Other liabilities	(151,382)	-	-	-
<b>Total</b>	<b>(151,382)</b>	-	-	-

**December 31, 2008**

	Less than 1 year (\$)	1 - 3 years (\$)	3 - 5 years (\$)	No maturity date (\$)
<b>Financial Assets</b>				
Equities - long	-	-	-	6,473,748
Other receivables	24,621	-	-	-
Cash and cash equivalents	6,744,743	-	-	-
<b>Total</b>	<b>6,769,364</b>	-	-	<b>6,473,748</b>
<b>Liabilities</b>				
Equities - short	-	-	-	(704,016)
Other liabilities	(32,050)	-	-	-
<b>Total</b>	<b>(32,050)</b>	-	-	<b>(704,016)</b>

**(III) Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Interest rate risk arises when the Fund invests in interest-bearing financial instruments. The Fund is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is minimal sensitivity to interest rate fluctuations on any cash and cash equivalents, invested at short-term market interest rates.

As at December 31, 2009, and December 31, 2008, the Fund did not hold any interest-bearing securities, and therefore was not subject to interest rate risk.

**(IV) Other Price Risk**

Other price risk is the risk that the market value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

All investments represent a risk of loss of capital. The Manager of the Fund moderates this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Fund's investment objectives and strategy. The maximum risk resulting from financial instruments is determined by the market value of the financial instruments, unless the Fund

holds short positions in financial instruments, as further described below. The Fund's overall market positions are monitored on a daily basis by the Manager. Financial instruments held by the Fund are susceptible to market price risk arising from uncertainties about future prices of the instruments.

The Fund has the ability to take short positions. There are risks associated with short selling, namely that the securities will rise in value or not decline enough to cover the Fund's costs, or that market conditions will cause difficulties in the sale or repurchase of the securities.

The Statement of Investments and Other Net Assets classifies securities by market segment.

The impact on Net Assets of the Fund due to a 5 percent change in benchmark, using historical correlation between the Fund's return as compared to the return of the Fund's benchmark, as at December 31, 2009, and December 31, 2008, with all other variables held constant, is included in the following table. Regression analysis has been utilized to estimate the historical correlation. The analysis uses 148 data points (2008 – 136 data points) based on the monthly net returns of the Fund.

Benchmark	Impact on Net Assets	
	December 31, 2009	December 31, 2008
S&P/TSX Total Return Index	\$710,000	\$550,000

The historical correlation may not be representative of the future correlation, and accordingly the impact on Net Assets could be materially different.

**(V) Currency Risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk arises from financial instruments (including cash and cash equivalents) that are denominated in a currency other than Canadian dollars, which represents the functional currency of the Fund. The Fund may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies.

Currencies to which the Fund had exposure as at December 31, 2009, and December 31, 2008, are as follows:

Currency	December 31, 2009		December 31, 2008	
	Financial Instruments (\$)	Percentage of Net Assets (%)	Financial Instruments (\$)	Percentage of Net Assets (%)
United States Dollar (long)	1,048,444	6.12	1,888,449	15.1
United States Dollar (short)	-	-	(264,826)	(2.1)

The amounts in the above table are based on the fair value of the Fund's financial instruments (including cash and cash equivalents). Other financial assets and financial liabilities that are denominated in foreign currencies do not expose the Fund to significant currency risk.

As at December 31, 2009, if the Canadian dollar had strengthened or weakened by 5 percent in relation to all currencies represented in the portfolio, with all other variables held constant, Net Assets would have increased or decreased, respectively, by approximately \$52,000 (2008 - \$81,000).

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

**(VI) Fair Value Estimation**

The amendments to CICA 3862, “Financial Instruments – Disclosures” require the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

**Level 1** - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2** - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

**Level 3** - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes ‘observable’ requires significant judgment by the Manager. The Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses the Fund’s financial assets and liabilities within the fair value hierarchy measured at fair value at December 31, 2009.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Equity securities	\$15,572,029	\$177,500	-	<b>\$15,749,529</b>
<b>Liabilities</b>	-	-	-	-

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The Manager does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. This amount is comprised of subscription receipts. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

There was no movement between levels during the year.

#### 4. UNIT TRANSACTIONS

In accordance with Canadian Institute of Chartered Accountants' (CICA) Handbook Section 1535, "Capital Disclosures", the Fund discloses information about the Fund's capital and how it is managed.

Units issued and outstanding represent the capital of the Fund. The Fund is authorized to issue an unlimited number of units. Units of the Fund are issued and redeemed at the then current Net Asset Value per unit at the option of the unitholder. Unitholders are entitled to distributions when declared. Distributions on units of the Fund are reinvested in additional units of the Fund or at the option of the unitholder, paid in cash. The characterization of the distributions is based on management's estimate of the actual income for the year. The Fund has no restrictions or specific capital requirements on the subscription and redemption of units, other than minimum subscription requirements. The Statement of Changes in Net Assets identifies changes in the Fund's capital during the period. The Manager manages the capital of the Fund in accordance with the Fund's investment objectives, including managing its liquidity in order to be able to meet redemptions as discussed in Note 3.

The number of units issued and redeemed at the Net Asset Value is summarized as follows:

	2009	2008
Balance at January 1	809,284	873,091
Units issued for cash	60,710	59,197
Units issued upon fund merger (Note 1)	220,756	-
Units redeemed	(148,427)	(123,004)
Units issued and outstanding at December 31	942,323	809,284

#### 5. INCOME TAXES

As at December 31, 2009, the Fund qualified as a mutual fund trust. The Fund is subject to tax under the Income Tax Act (Canada) (the "Act") on all of its taxable income for the year (including net taxable capital gains) and is permitted a deduction in computing taxable income for all amounts which are paid or payable in the year to its unitholders. It is the policy of the Fund, to the extent practicable, to distribute to the unitholders all income of the Fund for the year so that it generally will not pay any Canadian federal income tax under Part I of the Act. Accordingly no provision for income taxes has been made in these financial statements.

As of December 31, 2009, the Fund had capital or non-capital losses as noted below.

Non-Capital Loss* (expiry 2029)	Capital Loss**
\$186,006	\$2,241,106

\* Non-capital losses can be offset against income in future years for up to 20 years.

\*\* Net Capital losses can be carried forward indefinitely for offset against gains in future periods.

#### 6. RELATED PARTY TRANSACTIONS

Under the terms of agreement between the Fund and the Manager, and in return for investment management and administrative services, the Manager receives monthly management fees from the Fund, calculated daily and payable monthly.

For the year ended December 31, 2008, the management fee rate paid to the Manager by the Fund was 2.15% per year. Beginning January 29, 2009, the management fee rate was

reduced to 1.80%. In addition, the Fund pays the Manager performance fees equal to 20% of the amount by which the Fund outperforms the S&P/TSX Total Return Index.

Performance fees will be payable in all circumstances where the performance of the Fund exceeds that of its benchmark, even in circumstances where the overall performance of the Fund has declined. Performance fees will be calculated and accrued daily such that, to the extent possible, the unit price each day will reflect any performance fees payable as at the end of such day. Effective January 1, 2009, performance fees for the Fund are calculated and accrued each Valuation Day, but will only be payable following the end of the fiscal year of the Fund based on the actual annual performance of the Fund.

If the performance of the Fund for the period being measured is less than the performance of its benchmark for such period (a "Return Deficiency"), then no performance fees will be payable until the performance of the Fund thereafter relative to its benchmark has exceeded the amount of the Return Deficiency.

For the periods ended December 31, 2009 and December 31, 2008, no performance fees were incurred by the Fund.

The Manager may, on its own accord, pay for certain operating expenses of the Fund in order to maintain the Fund's management expense ratio at a competitive level. These absorptions may be terminated at any time by the Manager, and at the Manager's direction may be continued indefinitely. The absorbed amounts are shown in the Statement of Operations.

#### **7. FEES AND OPERATING EXPENSES**

The Fund is responsible for the payment of all fees and expenses including, but not limited to, brokerage commissions on portfolio transactions, all regulatory filing fees, registrar and transfer agent fees, audit, accounting, administration, record keeping and legal fees and expenses, custody and safekeeping charges, all taxes, and all other fees relating to the purchase and sale of the assets of the Fund. There were no soft dollar commissions for the Fund during the period.

The total brokerage commissions paid by the Fund with respect to security transactions for the period ended December 31, 2009 were \$59,245 (2008 - \$58,313).

#### **8. RECONCILIATION OF NET ASSET VALUE PER UNIT TO NET ASSETS PER UNIT**

**As at December 31,**

	Per Unit (\$)		
	Net Asset Value	Sec. 3855 Adjustment	Net Assets
<b>2009</b>	\$18.27	\$(0.08)	\$18.19
<b>2008</b>	\$15.50	\$(0.05)	\$15.45

## **9. FUTURE ACCOUNTING CHANGE**

The CICA Accounting Standards Board (“AcSB”) confirmed in February 2008 that IFRS will replace Canadian GAAP in 2011 for profit oriented Canadian publicly accountable enterprises, including investment funds. The Fund will adopt IFRS on January 1, 2011. The Manager has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund’s current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact. Management has presently determined that the impact of IFRS would be limited to additional note disclosures and modifications to the financial statement presentation. It is anticipated that there would be no significant impact to the Fund’s Net Asset Value per unit as a result of the changeover to IFRS. However, this present determination is subject to changes resulting from the issuance of new standards or new interpretations of existing standards.

## **FUND INFORMATION**

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